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ONE
COMPANY

MANY
STRENGTHS

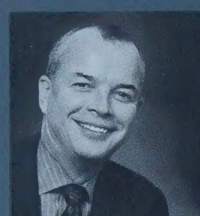
MANITOBA TELECOM SERVICES INC. **ANNUAL REPORT 2004**

MTS®

MANITOBA TELECOM SERVICES INC.

Canada's third-largest national communications provider, with 6,600 dedicated employees focused on delivering outstanding value to its customers. The company has two operating divisions, serving customers in Manitoba and across the country with leading telecommunications products and services.

ALLSTREAM (National) Division



John MacDonald
President

Our National division, operating under the Allstream brand, serves business customers with connectivity, infrastructure management and professional services. Our National division ranks number two in every market in which it operates, and in 2004, was the only profitable alternative communications provider in Canada. Customers benefit from its leading Internet Protocol ("IP") network product offerings, as well as its widely-recognized expertise in the information technology ("IT") systems area, which has more than 700 specialized professionals providing applications development and managed network services. Blue-chip companies across Canada and into the U.S., as well as federal, provincial and municipal governments, are among the many customers who rely on our 24,300 kilometres of leading-edge fibre optic network, Canada-wide infrastructure, and team of dedicated professionals.

MTS (Manitoba) Division

Cheryl Barker
President

Our Manitoba division, operating under the MTS brand, is the preeminent communications provider in the province, one of the most successful regional communications providers in Canada, and in 2004, had the most profitable telecommunications operations in North America. Our Manitoba division serves business and residential customers with a comprehensive suite of communications services. Through its various print and online directories, MTS Media offers valuable content services and advertising solutions to consumers and advertisers throughout Manitoba. Through the operations of AAA Alarm Systems Ltd., the Manitoba division provides security solutions to a steadily increasing share of the business and residential security market in Western Canada.

CONTENTS:

Now, more than ever before, MTS is a company of many strengths. The acquisition of Allstream in 2004 served to expand these strengths: MTS has more talented people, more capabilities, a greater infrastructure, an expanded customer base, wider reach, and enhanced products and solutions.

MTS's expansion is preparing the company for long-term growth – and for the future. In an industry where the only constant is change, MTS recognizes that it is important to prepare now for success in the communications world of tomorrow: a world of new emerging technologies, of Internet Protocol, of increased customization, of value rather than commodity, and of increased competition.

While MTS's strengths are diverse, they come together behind a clear vision for the future. MTS has grown its offerings, its number of staff, its reach, and its customer base. Now, it will compete nationally, defend and expand in Manitoba, and grow profitably for the long-term, forging a strong expanded company on the foundation of its many strengths.

FINANCIAL HIGHLIGHTS

Years ended December 31 (in millions, except earnings per share)	2004[1]	2003[2]	% change
Consolidated			
Revenues	$ 1,524.9	$ 858.5	77.6%
EBITDA [3]	598.3	442.8	35.1%
Net income	305.1	85.6	256.4%
Earnings per share	4.31	1.36	216.9%
Continuing operations [4]			
Revenues	$ 1,524.9	$ 858.5	77.6%
EBITDA	603.8	447.9	34.8%
Net income	175.2	115.0	52.3%
Earnings per share	2.47	1.83	35.0%
Pro forma - continuing operations [5]			
Revenues	$ 2,010.6	$ 2,127.7	(5.5%)
EBITDA	675.8	701.8	(3.7%)
Net income	185.3	186.2	(0.5%)
Earnings per share	2.76	2.77	(0.4%)

(1) Effective June 4, 2004, the Company acquired 100% of the issued and outstanding Class A voting shares and Class B voting limited shares of Allstream Inc. ("Allstream"), a provider of telecommunications services. The operating results of this business are included in the Company's consolidated operating results from the effective date of acquisition.

(2) Financial results for 2003 have been restated for change in presentation of cost of goods sold, whereby costs previously netted against operating revenues are now included as operating expenses, and for a retroactive change in accounting policy for deferred alarm installation costs, adopted January 1, 2004.

(3) Earnings before interest, taxes, amortization, gain on sale of investment in Bell West, equity losses, goodwill revaluation and other (expense) income.

(4) Continuing operations exclude restructuring and integration costs in 2004 and 2003; the impact of Bell West in 2004 and 2003; and one-time items, which include Bell Canada settlement costs in 2004, a provision against a long-term investment in 2004, and a goodwill revaluation in 2003.

(5) Pro forma results from continuing operations provide an indication of MTS's results from continuing operations as if the acquisition of Allstream by MTS had occurred on January 1, 2003, and exclude any one-time costs associated with the acquisition of Allstream. The pro forma financial results exclude the impact of Allstream's former subsidiaries, Contour Telecom Inc., and Argos Telecom Inc., which were sold on July 2, 2003. Pro forma results from continuing operations also exclude items identified in footnote (4) above.

Non-GAAP measures of performance

We provide information concerning continuing operations, EBITDA, free cash flow and pro forma results in our 2004 Annual Report because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and are not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures of performance are discussed in Management's Discussion and Analysis on page 14.

Forward-looking statements

Our 2004 Annual Report includes forward-looking statements about our corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from those projected or suggested. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", and other similar terms. Factors that could cause actual results to differ materially from those expected include, but are not limited to, the items identified in the "Risks and Uncertainties" section of Management's Discussion and Analysis on pages 42 to 46. Please note that forward-looking statements reflect our expectations as at March 4, 2005. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

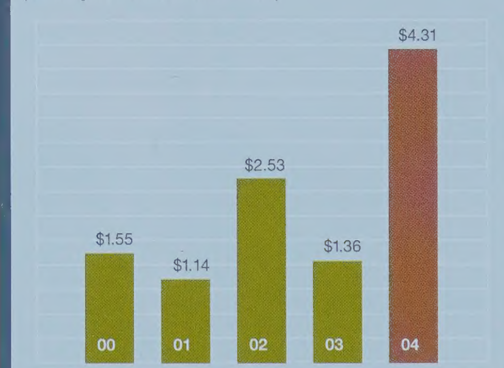
ONE
YEAR

REVENUES – Continuing Operations
(for the years ended December 31)

EBITDA – Continuing Operations
(for the years ended December 31)

EARNINGS PER SHARE – Continuing Operations
(for the years ended December 31)

EARNINGS PER SHARE – Consolidated
(for the years ended December 31)



SHARE PERFORMANCE

Share Performance
This graph compares the cumulative total return on MTS's Common Shares over the last eight years with the cumulative total return of the S&P/TSX Composite Index, assuming a $100 investment at the initial offering price of $13.00 and reinvestment of dividends.

MANY
HIGHLIGHTS

Thomas E. Stefanson, FCA CHAIRMAN

William C. Fraser, FCA CHIEF EXECUTIVE OFFICER

TO OUR SHAREHOLDERS

2004 has been a year of exciting change for our company. With our acquisition of Allstream, we made a strategic move to expand beyond the Manitoba borders, as Canada's third-largest national telecommunications service provider. Allstream is Canada's most successful – and *only* profitable – alternative telecommunications provider. We have re-positioned MTS to grow profitably in the national marketplace. Together, MTS and Allstream face the market as one company, with many strengths.

OUR STRENGTHS

- A leading-edge network of national scope supporting a growing suite of advanced services.
- Strong and growing cash flows supporting one of the highest dividend yields of any publicly-traded company in Canada.
- One of the strongest balance sheets in the industry.
- The opportunity to increase our share of the national market, leveraging a well-established foundation of blue-chip customers.
- Our 6,600 employees – highly skilled people, with a strong customer service and marketing focus.
- A very strong senior management team.

Our decision to acquire Allstream was premised on ensuring that we are able to continue to deliver leading-edge solutions and services to our customers, and by extension, create value for shareholders. Technology is the great enabler in the communications industry, and it continues to evolve and advance. Internet Protocol ("IP") technology is increasingly impacting operations, networks and the range of services offered by communications companies. No other company on the national stage is better equipped to capture the benefits from the opportunities being created by these changes than we are.

In the year ahead, with the capabilities of IP, the telecommunications and cable companies will vie for residential customers' video, voice and high-speed Internet – the "triple play". New entrants are preparing Voice over IP ("VoIP") initiatives, and major cable companies have announced intentions to launch IP-based telephony services this year. On the business side, customers are increasingly embracing IP solutions.

While other providers are rushing to build out infrastructure to accommodate the new requirement for IP services, we have been preparing for some time. In fact, Allstream was the first company in Canada to deploy a national IP Multiprotocol Label Switching ("MPLS") network in 2000, and now, is on the leading edge in the development and delivery of new services to drive our customers' business success. In Manitoba, we anticipated these changes and opportunities as well, undertaking a major broadband expansion effort

beginning in 2000. Today, our broadband capabilities extend to 85% of Manitoba households. Our digital television product, which is part of our broadband capabilities, has gained excellent traction in the marketplace since its initial launch in 2003.

A key component to leveraging our combined strengths is bringing our two organizations together in a manner that maximizes the potential we have as one company. That work began the day after we announced the acquisition, and the momentum has continued to build. A strong leadership team and the commitment of 6,600 dedicated employees nation-wide continues to yield improved operations and new opportunities. To date, our transition has gone very well: in 2004 alone, we completed work to achieve approximately $15 million of an expected $40 million in annual operating synergies that are anticipated by the end of 2005.

At the same time, we have ensured that operationally, the business moves forward successfully in the marketplace. In addition to the comprehensive transition work completed in 2004, we also experienced operational successes in both the Manitoba and National divisions, including the launch of new products and services.

INNOVATIVE PRODUCTS AND SERVICES

Through our National division, we introduced Network Resident IP Telephony, a service that enables broadband and cable providers to deliver residential

local phone services. These important new offerings position us as a leader in the next generation of telecommunications services. In June, our National division also launched "Digital Ink™" – an innovative solution which captures information as it is written on paper, negating the need for manual transfer of information to electronic data systems.

In Manitoba, we found innovative ways to drive revenues and showcase our leading-edge technology. One of the most well-publicized examples last year is the set of new and innovative applications created for the MTS Centre, Winnipeg's new $135 million sports and entertainment facility, for which we acquired the naming rights. Widely recognized as one of the most "wired" arenas in North America, MTS Centre provides an entertainment experience to its patrons and our community that goes far beyond the traditional arena offering. A range of exclusive communications services, from wireless ordering of food from the concessions, to wireless hockey pools and contests related to MTS Centre events, to the one-stop "MTS Centre on Demand" television portal available only in the arena's suites and in the homes of our digital TV customers, provides us with a range of opportunities to generate revenues – while keeping our brand top-of-mind with Manitobans.

OPERATING AND FINANCIAL PROGRESS

Our existing products and services in both the Manitoba and National divisions also have performed well in 2004. The overwhelming success of MTS TV this year saw us exceed the 30,000-customer milestone well ahead of

original forecasts. We also surpassed the 100,000 DSL high-speed Internet customer milestone as we continued to roll out service to new communities, solidifying our position as the province's leading Internet service provider.

Our National division announced a number of significant new contract wins in 2004, including the delivery of IP-based business solutions for The Great-West Life Assurance Company and the Bank of Nova Scotia. We also extended our Master Services Agreement with AT&T Corp., which will ensure continued seamless cross-border voice services for customers until June 2011.

In addition, we announced a strategic relationship in December 2004 with global telecommunications provider British Telecom ("BT"), one of the world's leading providers of communications solutions. This gives our customers access to an IP-based network with a truly global reach, as well as the ability to draw on BT's leading-edge applications and service development. This key partnership positions us to deliver global IP solutions for international customers.

Overall, we were pleased with the financial results we achieved in 2004. On a pro forma basis, our continuing operations generated revenues of $2.0 billion, EBITDA of $675.8 million, net income of $185.3 million and EPS of $2.76. Included in these results was solid growth from our Manitoba division. As well, we delivered consistently profitable performance from the National division, in the second half of the year, together with increased revenue stability in the fourth quarter. The mix of complementary lines of

business within our National and Manitoba divisions creates powerful new opportunities for our organization. We are a profitable and nimble communications provider, and an innovator in national enterprise markets. We will continue to take advantage of our strengths to develop new products, and to identify new markets for existing lines of business.

OUR RELATIONSHIP WITH BELL

In February 2004, we exercised a put option that required Bell Canada to buy our 40% stake in Bell West for $645 million. We exited this investment and locked in an excellent return. Later in the year, and following our acquisition of Allstream, we also reached an agreement with Bell Canada for the orderly unwind of our various alliance agreements in a manner that will be seamless to customers, and pave the way for moving forward nationally.

LOOKING AHEAD

We will focus on increasing shareholder value by profitably delivering innovative communications solutions that meet our customers' needs, and by continuing to effectively evolve our company as a leading national communications solutions provider.

In Manitoba, we will continue to work towards our goal of owning the broadband home, through our triple play offering: digital television, high-speed Internet and voice services. Through these initiatives, we are well-positioned for the arrival of cable telephony in Winnipeg. We will continue to evolve to

meet the needs and expectations of our customers, and will expand and grow within and beyond Manitoba's borders.

Nationally, we will drive revenue growth and improve the bottom line through aggressive new customer attainment and retention initiatives.

In 2005, we see the potential for growth in profitability as our transition progresses and we continue to find new operating synergies. Our outlook for this year contemplates revenues of $2.04 billion to $2.08 billion, EBITDA in the range of $705 million to $720 million, and EPS of between $2.95 and $3.05. We will deliver results as we always have: sustainably, prudently, and as a fierce competitor, while meeting the needs of our customers.

We are moving forward as a strong and focused organization with the same commitment to growing profitability that has been our hallmark for years. Together, we are well-positioned to win in the marketplace, and leverage our strengths, in support of delivering long-term value to our shareholders.

Thomas E. Stefanson, FCA
Chairman

William C. Fraser, FCA
Chief Executive Officer

February 1, 2005

ONE
REPORT

MANY
INSIGHTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of our financial results for the period ended December 31, 2004 is as at March 4, 2005. In this MD&A, "we", "our", and "us" refer to Manitoba Telecom Services Inc. ("MTS"). This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2004. The financial statement data contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All financial data is reported in millions of Canadian dollars, unless otherwise noted. This MD&A and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.

This MD&A includes forward-looking statements about our corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from those projected or suggested. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", and other similar terms. Factors that could cause actual results to differ materially from those expected include, but are not limited to, the items identified in the "Risks and Uncertainties" section of this MD&A. Please note that forward-looking statements reflect our expectations as at March 4, 2005. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com

MD&A CONTENTS		IN THIS SECTION:
14	Non-GAAP Measures of Performance	We define certain financial measures that we use for evaluating our performance which do not have a standardized meaning under Canadian GAAP.
14	Overview	We describe our corporate vision and strategy for delivering long-term shareholder value. We describe our core businesses, including key performance drivers and capabilities that affect our company as a whole. We review our overall performance in 2004, including results against previously stated objectives.
24	Results of Operations	We review our consolidated results, as well as the performance of each of our lines of business. We provide detailed information about our performance in 2004 as compared with 2003.
34	Liquidity and Capital Resources	We discuss how we manage our financial condition and capital resources. This includes a description of our credit facilities, contractual obligations, debt/equity mix, financial instruments, guarantees and other financial arrangements.
40	Critical Accounting Estimates and Assumptions	We outline important estimates and assumptions that we have made in preparing our 2004 financial statements.
42	Changes in Accounting Policies, Including Initial Adoption	We highlight changes we made to our accounting policies this year, as well as any new accounting policies that were adopted.
42	Risks and Uncertainties	We describe the major risks and uncertainties that may shape and impact our ability to achieve projected results going forward.
47	Social Responsibility	We focus on our presence and commitment to the communities in which we operate.
47	Outlook	We provide forward-looking information about our operating and financial objectives for 2005. We analyze the future prospects for our company, and for certain lines of our business.

ONE
FOUNDATION

MANY
PRODUCTS & SERVICES

In the competitive telecommunications industry, responding to customers' growing needs isn't enough: you must anticipate them. MTS continues to develop its outstanding portfolio of value-added products and services to offer its customers more than just connectivity. The result is an offering that provides greater value to the customer, and greater loyalty to MTS.

NON-GAAP MEASURES OF PERFORMANCE

In this MD&A, we provide information concerning continuing operations, EBITDA from continuing operations, free cash flow, and pro forma information because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by Canadian GAAP and are not necessarily comparable to similarly titled measures used by other companies.

> **Continuing Operations –** We provide information that refers to our performance from continuing operations. Continuing operations exclude the one-time gain resulting from the sale of our investment in Bell West Inc. ("Bell West") in the first quarter of 2004, the one-time expense related to the costs of a settlement with Bell Canada ("Bell") incurred during the second quarter of 2004 pursuant to an agreement we entered into with Bell (the "Settlement Agreement"), the restructuring and integration costs incurred during the third and fourth quarters of 2004 and the fourth quarter of 2003, the investment provision recorded in the fourth quarter of 2004, and a goodwill revaluation charge incurred in the fourth quarter of 2003, as well as the impact of equity losses from Bell West in 2004 and 2003.

> **EBITDA From Continuing Operations –** We define EBITDA from continuing operations as earnings before interest, taxes, amortization, gain on sale of investment in Bell West, restructuring and integration costs, equity losses, goodwill revaluation and other (expense) income. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.

> **Free Cash Flow –** We define free cash flow as cash flow from operating activities, less capital expenditures, and excluding changes in working capital. Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares, or retiring debt.

> **Pro Forma Information –** To assist investors in understanding the performance of our expanded company, we have included pro forma financial information in this MD&A to provide an indication of the consolidated results as if the acquisition of Allstream Inc. ("Allstream") by MTS had occurred on January 1, 2003. The pro forma information is from continuing operations, and also excludes any one-time costs associated with the acquisition of Allstream, as well as the impact of Allstream's former subsidiaries, Contour Telecom Inc. and Argos Telecom Inc., which were sold on July 2, 2003. The pro forma financial information contained in this MD&A is unaudited.

OVERVIEW

One company, many strengths

MTS is a leading national telecommunications provider in Canada. As a recognized leader and innovator in our industry, we are a 6,567 employee company that earned $1.5 billion in revenue and net income of $305.1 million in 2004. Our extensive Internet Protocol ("IP") national network infrastructure, including 24,300 route kilometres of fibre optic cable, together with our professional services capabilities, enables us to profitably deliver a full range of connectivity services, and to create value-added solutions for our customers. By responding to the current and emerging requirements of customers in major markets across the country, we leverage our competitive strengths within two main operating divisions:

> Allstream (National) division (the "National division"): a customer-focused, agile innovator that offers a world class portfolio of business solutions, including data and voice connectivity, infrastructure management and information technology ("IT") services to business and wholesale customers. Allstream has built a strong market share position that spans the country, and includes many of Canada's largest companies as well as federal, provincial and municipal governments.

> MTS (Manitoba) division (the "Manitoba division"): the primary telecommunications provider throughout Manitoba, the clear leader in our market. We serve residential and business customers across the province offering a full suite of wireline voice, high-speed Internet and data, next generation wireless, directory, digital television, and security and alarm monitoring services.

Prior to our acquisition of Allstream, we provided e-business services through our subsidiary, Qunara Inc. ("Qunara"). With the acquisition of Allstream, Qunara's operations were fully integrated with the operations of our National division.

As a full-service national provider capable of developing, delivering and supporting the next generation of communications solutions, MTS is well positioned to create and deliver shareholder value for the long-term. For reporting purposes, our business is organized into the following broad services segments:

- Local – business and residential voice connections, enhanced calling features, payphone, wholesale services to other providers, and contribution revenue.
- Data – connectivity, Internet, managed IT services, and custom business solutions that provide secure, reliable and innovative networking capabilities.
- Long distance – to the residential and business markets, including domestic, cross-border, international, toll-free numbers, calling cards and conferencing.
- Wireless – cellular, wireless data, paging, and group communications in the Manitoba market.
- Other – directory, digital television and miscellaneous services. Our directory line of business includes the White Pages and Yellow Pages™ telephone directories, as well as online content. Our digital television service ("MTS TV") is a broadband-delivered home entertainment package, currently offered in Winnipeg.

2004 was a year of considerable change in our corporate structure. Immediately following our acquisition of Allstream, a $1.6 billion transaction announced on March 18, 2004 and completed on June 4, 2004, our expanded company embarked on a comprehensive process of corporate integration, asset alignment and re-positioning for growth and improved profitability. This acquisition brought together the strengths of North America's most profitable regional telecommunications provider, MTS, with Canada's largest, most profitable alternative telecommunications company, Allstream.

Our acquisition of Allstream put us in an excellent position to grow our business for the long-term. Allstream added significant scope and scale to our operations, bringing with it a number of key strengths, including a leading edge fibre-based national network, a growing suite of next generation IP-based products and services, a well-established foundation of blue-chip customers to build from, and a strong customer service culture to serve the national business market. Not only did the acquisition of Allstream strengthen our position in Manitoba and increase our business and geographic diversification, we also gained the benefit of Allstream's tax loss carryforwards. As a result, we will not pay income taxes for several years.

Today, both our National division and our Manitoba division operate in their respective markets, working closely together to support customers and leverage the combined strengths of the company. These divisions share strategic corporate resources such as networking, information technology, operating and support assets and processes, as well as executive management, treasury, and some administrative functions.

Aside from acquisition-related activities, we implemented strategies for the expanded company throughout 2004 to solidify and strengthen our market position in core customer segments nationally and regionally in Manitoba; evolve our industry-leading network capabilities through ongoing capital investments; improve our operating cost-effectiveness and processes; and rationalize non-strategic operations.

2004 results in summary

We achieved our main business objectives for 2004. From a financial results and shareholder return perspective, 2004 was a very good year overall, especially given the challenges in managing a significant acquisition, as well as completing our divestiture of Bell West and resolving our commercial and ownership arrangements with Bell.

Because of the major shift in our business profile and corporate structure during 2004, including both a material divestiture and acquisition, we also are providing select actual results in this MD&A in the context of a pro forma analysis. The intent is to highlight the financial results assuming MTS's acquisition of Allstream occurred on January 1, 2003. We have included, where applicable, pro forma 2003 results for comparative purposes.

2004 FINANCIAL PERFORMANCE

		Pro forma Results		Actual Results
Revenues	$	2.011 B	$	1.525 B
EBITDA (Continuing Operations)	$	675.8 M	$	603.8 M
EPS	$	2.76	$	4.31
Free Cash Flow	$	262.5 M	$	498.8 M
Capital Expenditures	$	316.5 M	$	278.3 M

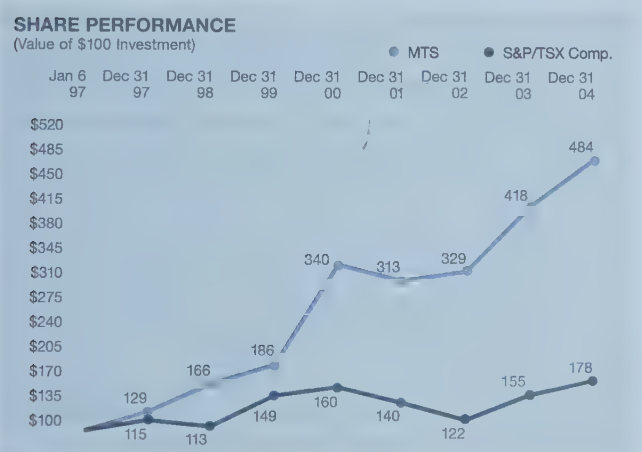
In 2004, we were pleased with the results achieved in relation to the guidance we outlined on August 12, 2004. We were targeting to deliver pro forma revenues in the range of $2.0 billion to $2.1 billion, EBITDA of $670 million to $680 million, free cash flow in the range of $265 million to $295 million and EPS greater than $2.75. Capital expenditures were forecast at approximately $315 million.

During the year, we delivered strong performance in high-growth segments, which includes digital subscriber line ("DSL") high-speed Internet, wireless, MTS TV and certain emerging broadband data segments. We reported continued stability in traditional areas of local voice and directory. Our long distance voice service continued to experience price erosion, which was driven mostly by competitive pressure in the industry. Our sizeable long distance voice business remains very profitable and strategic, and we expect that to be the case for the foreseeable future. Certain enterprise data markets are beginning to mature and will be transformed by the current generation of IP-based technologies now deployed in our network. While this trend has created pricing pressure and a decline in revenue in 2004, we are pleased that our extensive capabilities for offering next generation IP services are being increasingly well-received by business customers across Canada, including large enterprises with extended communities-of-interest, and alternate providers requiring turnkey infrastructure to enter markets such as local consumer telephony.

Our expanded alliance with British Telecom ("BT"), announced on December 9, 2004, opens up new possibilities for giving us a strategic resource in providing international connectivity and single-source solutions to BT's Canadian customers with global operations. This alliance also provides the benefit of enabling us to terminate certain BT communications traffic to Canada and collaborate on joint service-development initiatives. As well, our National division is able to extend its national multiprotocol label switching ("MPLS") network by leveraging BT's extensive MPLS global network to offer seamless international service and support to enterprise customers.

We believe that our business results for 2004 provide a strong indication that MTS is prudently managing its transformation as an alternative national competitor while delivering on key profitability and financial metrics, translating into a solid return.

In 2004, the total return to shareholders was 16%. Since going public in 1997, we have delivered a total return compound annual growth rate of 22%. Our dividend was increased substantially in 2004, which puts us, on a yield basis, at the top of the Canadian industry and of publicly traded companies in Canada generally. We have long demonstrated the ability – measured in our consistent track record of shareholder return over many years – to profitably evolve and innovate in response to changing competitive conditions, disruptive technologies and rising customer expectations for value. We have every expectation of being successful well into the future, while delivering on our commitments to customers, shareholders and employees who enable our success.



This graph compares the cumulative total return on MTS's Common Shares over the last eight years with the cumulative total return of the S&P/TSX Composite Index, assuming a $100 investment at the initial offering price of $13.00 and reinvestment of dividends.

Summary of key developments

On February 2, 2004, we exercised the put option that divested us of our 40% equity investment in Bell West, which we formed with Bell in 1999 under the name of Bell Intrigna Inc. ("Bell Intrigna") to market business telecommunications services in Alberta and British Columbia. In accordance with the provisions of the Bell West shareholder agreement, Bell Canada purchased all of our shares in Bell West for $645.0 million. This transaction was completed and the proceeds paid to us on August 3, 2004.

On June 4, 2004, we acquired Allstream, which set in motion a corporate realignment and expansion evident today in the structure, direction and results of the combined MTS organization. 2004 saw us complete a number of significant activities flowing from the Bell West and Allstream transactions. These activities supported our long tradition of returning value to shareholders and maintaining excellent balance sheet strength:

> We won the support of Allstream shareholders and purchased their shares to acquire full ownership of Allstream in exchange for 22.5 million shares and net cash of $226.4 million.

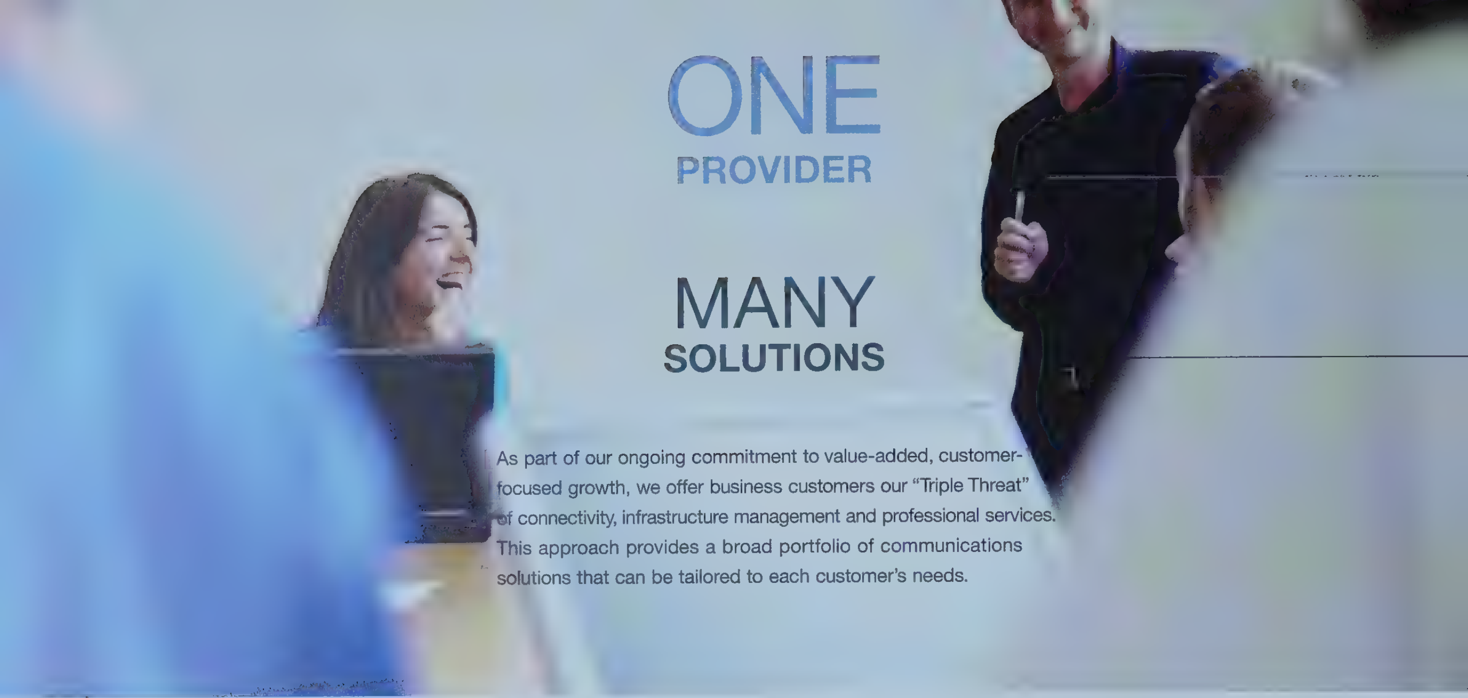
> The $645.0 million proceeds from the sale of our investment in Bell West, together with additional borrowings enabled us to finance the Allstream transaction and complete a substantial issuer bid that returned approximately $800 million to shareholders through the purchase of our shares for cancellation. Through these actions, we returned our expanded company from an underlevered position to a debt to total capitalization ratio of 40.9%.

> We maintained very solid credit ratings through a time of significant changes in our corporate structure, market focus and asset base. In 2004, the major credit agencies that analyze our company confirmed our investment-grade credit ratings.

> We increased our quarterly dividend on August 12, 2004 by 160% per share to $0.65 – which supports our strategies to deliver attractive shareholder returns.

> We put in place a transition plan to merge and rationalize the operations of our Manitoba division and our National division. We completed work to achieve annual operating synergies of approximately $15 million at the end of 2004, and will complete the remaining work to achieve our full-targeted $40 million in annualized operating synergies in 2005.

> On July 2, 2004, we announced the signing of a Settlement Agreement with Bell, which provides for the unwinding of a series of commercial and business arrangements and the termination of legal proceedings against us and against Allstream. As part of this agreement, we paid Bell a one-time amount of $75.0 million on August 3, 2004. As a result, Bell disposed of its equity interest in our company in September 2004.



ONE PROVIDER

MANY SOLUTIONS

As part of our ongoing commitment to value-added, customer-focused growth, we offer business customers our "Triple Threat" of connectivity, infrastructure management and professional services. This approach provides a broad portfolio of communications solutions that can be tailored to each customer's needs.

Vision

We believe that the future holds great potential for our expanded company. Our vision is to energetically – and profitably – build on our status today as a leading national Canadian communications solutions provider. To do that, we will leverage our competencies that flow from being agile, innovative, disciplined and dedicated. Ours is ultimately a vision for growth and leadership grounded in creating and delivering value to our shareholders by producing consistently strong business results and financial performance.

To achieve our vision, we must be recognized and respected by our customers as a leader in the development, delivery and integration of next generation services and value-added solutions.

Strategic Priorities

> Leverage the integration – Deliver on our commitment to produce net $40 million in annualized operating savings from the integration of MTS and Allstream into a single organization.

> Profitably expand the national position – Aggressively differentiate our National division in national markets as an agile, innovative, customer-focused competitor that is fully capable of delivering next generation IP solutions to the market today.

> Defend, transform and expand the Manitoba business – Keep the profitability and cash flow capabilities strong by driving marketing creativity and cost efficiencies into all business segments, including bundling services to retain customers and grow the business.

> Evolve the network infrastructure – Take a measured, but substantive, approach to continuing the investment in next generation capabilities nationally and in Manitoba, and expand the national infrastructure where appropriate, to increase last-mile access outside Manitoba.

> Deliver results, deliver shareholder value – Continue with the MTS tradition of returning value to shareholders, founded on the principle of producing solid business results.

Performance drivers

There are factors that affect the performance of our company as a whole and others that impact specific businesses. The following performance drivers apply to both our National division and our Manitoba division in aggregate:

Customer demand – The Canadian market as a whole will continue to exhibit steady growth overall. This top-line stability masks an underlying turbulence as customers seek better pricing from the traditional connectivity services they have while, at the same time, searching out innovative communications capabilities enabled by new technologies. This is particularly so for businesses requiring a competitive edge in a globalizing economy, but, increasingly, for the household, as well, with its diversity of communications demands. With every year bringing more competition and solutions alternatives into the market, a key factor driving our performance will be our ability to package, price, market, deliver and support existing and new services to meet changing customer needs for functionality and value.

Networking innovation – Both our National division and our Manitoba division have, over the years, invested substantially in advanced broadband networking platforms to drive new service deployment efficiently and profitably. Our continuing ability to incorporate new technologies into our network will be a factor in enabling us, in the future, to offer new services toward the ultimate goal of allowing for ubiquitous, on-demand access across any communications device. Furthermore, as our network infrastructure continues to incorporate newer IP technologies

TRIPLE THREAT STRATEGY

CONNECTIVITY

MTS's leading-edge IP-based network and strategic partnerships with global providers like British Telecom and AT&T provide enterprise customers with end-to-end connectivity to networks around the world.

INFRASTRUCTURE MANAGEMENT

MTS takes care of hosting network management and security of its business customers' communications networks, allowing them to gain the maximum benefit from our sophisticated network without having to take their focus off their target: driving the best results from their business.

PROFESSIONAL SERVICES

MTS's professional services group pairs a leading-edge network with technology experts who design and implement customized communications solutions. Our professional services help enterprise customers manage information and optimize systems and applications for their particular business or industry needs.

that merge voice, data and video onto one stream, the focus on reliability will take on even more importance.

Operational efficiency – Our financial performance over the years has been a good indicator of our commitment to operating efficiently. With the scale and scope of our business expanded into national markets, we face a new set of challenges in keeping costs in line while delivering high-quality, reliable and secure services, which are properly supported and in keeping with customer expectations. Our experience with the integration of MTS and Allstream has been positive and yielded measurable benefits to date. The challenge of reaching $40 million in annualized savings by the end of 2005 is important to our success and ability to compete aggressively in our core business segments.

Competitive intensity – We face intensifying competition in our markets. The ongoing dynamic of consolidation, mergers and acquisitions from established incumbents and alternative providers continues to change the competitive environment in Canada. We must be vigilant and creative in our response to challenges to our market leadership in Manitoba. With the convergence of the cable and telecommunications sectors in the Manitoba market – where the battleground is the household customer – our "triple play" strategy is critical to success. This refers to the ability to bundle voice, high-speed Internet and digital television services across a single connection, thus serving the broadband home. Nationally, as an alternative to the main incumbents, our challenge is focused on exploiting our market-ready IP capabilities to profitably win a greater share of the business enterprise and wholesale markets.

Regulatory – The Canadian Radio-television and Telecommunications Commission ("CRTC") governs the telecommunications and broadcast industries in which we compete. The CRTC regulates the rates of telecommunications services where it deems there is insufficient competition to protect the interests of consumers. While the CRTC has lessened or removed the regulatory burden on certain services we provide, many of our local telecommunications services in Manitoba are impacted by changes in regulation. Our National division contends with regulation that can inhibit its cost-competitiveness in providing certain business services. We are in favour of regulation that is fair and balanced to all service providers, and that ensures the business goes forward on a sound economic footing while serving the interests of all Canadians at home, on the move, or in business.

Economic outlook – The business prospects and performance of the Canadian economy have a direct impact on our company. In past years, we have counted on the stability of the Manitoba economy as a strength and performance driver. As a national provider, however, we have moved on to new territory. In 2005 and beyond, our opportunity and performance will be influenced by the Canadian economy and by a number of provincial economies. It is expected that the Canadian economy will continue to exhibit strength relative to other developed and developing countries. As a modern post-industrial economy, Canada is a leader in newer industries such as high technology, telecommunications and transportation systems, but it also has enduring strength in the resource industries such as oil and gas, mining, forestry and agriculture. Barring an unforeseen downturn in 2005, we are optimistic that the economic outlook for Canada is beneficial to our business.

Performance drivers affecting specific businesses

Local: The quality of our local wireline connection remains a differentiator in the success of our traditional voice services operations in Manitoba. It is the strategic entry point into customer premises for high-growth services, including high-speed Internet and digital television. Outside Manitoba, the cost and availability of "last-mile" connections is very much a performance factor for our National division in serving our business customers. We are constantly fine-tuning our capital investment plan to increase the number of potential "on-net" customers we can reach outside Manitoba. We report the number of wireline connections we have with customers – referred to as network access services ("NAS"). CRTC regulations govern the prices we can charge for NAS in Manitoba, which affects our flexibility to compete in this market segment.

Data: Data includes very competitive growth areas across our business nationally and regionally. It includes all of our high-speed Internet growth opportunities that span both consumer and business market segments. It also includes our portfolio of wholesale infrastructure offered to alternative local residential providers. We have the strategic advantage of doing business today with some of the top 500 companies in Canada. Increasingly, these companies require solutions that integrate three strategic capabilities: connectivity through core transport and access technologies for local, national and international networking; infrastructure management, with a growing emphasis on security services; and IT managed services that link enterprise applications to the telecommunications infrastructure. In this context, the challenge is to continue to evolve our data services portfolio, and the underlying network building blocks and support systems, in ways that give us the flexibility to offer innovative integrated solutions that our enterprise customers can use strategically within their businesses.

Long distance: The cumulative impact of strong competition over many years has created a long distance services market where there is continual margin pressure. A key performance driver will be our continuing ability to manage price erosion and, in some markets, particularly nationally and internationally, use this trend to our advantage in winning market share. On balance, we believe it is far too early to over-react to the competitive dynamic and reduce prices to economically unsustainable levels. While dial-around competitors and Voice over IP ("VoIP") technologies will win some share of long distance revenues in the future, we will remain a strong long distance competitor because of the inherent value in the business segment. We will also be bundling this service in ways that support customer retention.

Wireless: Our wireless revenues today originate from our Manitoba customer base, where we are the clear leader. The expansiveness and sophistication of our wireless infrastructure in Manitoba, including the pervasiveness of 1x radio transmission technology ("1xRTT") capabilities, is a significant competitive advantage.

Digital television: Since we launched MTS TV in January 2003, the results have been outstanding. We believe that, in the Manitoba division, we are now one of the best positioned telecommunications providers in North America expanding into digital television as a standalone revenue and profit generator, but also as a key pillar in formulating the "triple play" of the home broadband bundle, including digital television, high-speed Internet and voice connectivity. Our ability to drive strong growth from MTS TV will depend on continuing consumer demand for digital services, on our ability to offer attractive content that appeals to our customer base, as well as our ability to successfully package MTS TV with other MTS services that leverage our telecommunications portfolio.

Directory: Our directory services business has been a very stable, profitable business within Manitoba for many years. In late 2004, our primary competitor in the directory market announced that it was discontinuing its operations in Manitoba. As new competitors enter the market or upgrade their offerings, the enduring strength of the MTS Yellow Pages™ as an advertising brand is a key asset in maintaining and incrementally expanding this business.

Capabilities

People – First and foremost: we are a team of 6,567 creative, disciplined and experienced communications professionals. Across our combined operations, our people take pride in their careers and have worked productively over the years to establish both the National division and the Manitoba division as leaders in their respective markets. This is an achievement

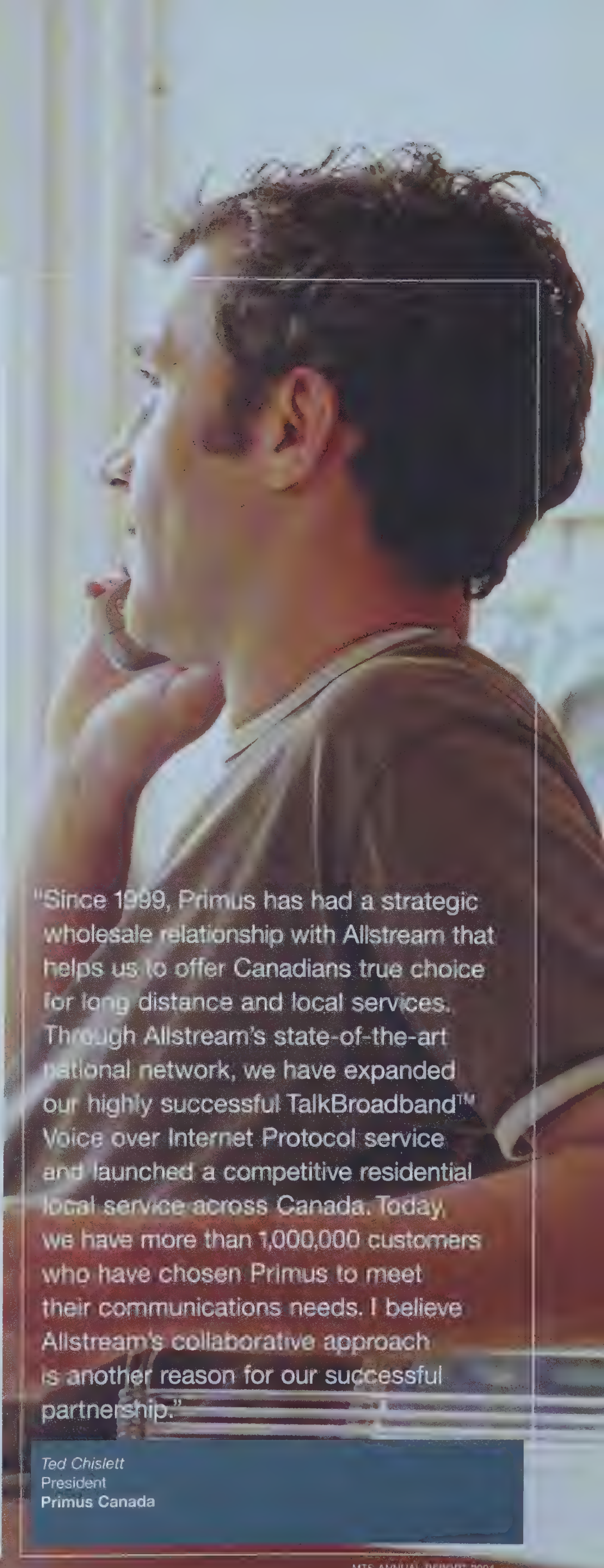
we are proud of, and a very tangible asset as our business evolves toward a stronger focus on the value-added dimension of communications and connectivity solutions. Our strength in people, and their dedication, discipline, innovation and agility will drive our success and push the boundaries in profitably delivering new capabilities to the Canadian communications markets.

Shareholder focus – MTS has long employed proven strategies to create and deliver value to shareholders. It is evident that the attribute of shareholder focus – the ability to deliver value – is predicated on producing solid, consistent results. We believe that with the risk profile for our expanded company, as exemplified in our business mix, strong balance sheet, networking assets, and strong and growing cash flows, we can enforce a disciplined approach to cash utilization to strengthen the business and, in turn, reward shareholders appropriately.

Customer relationships – Both nationally across Canada and regionally in Manitoba, our business maintains its momentum through creativity, discipline and reliability in serving customers. Looking at the entire company on the national scene, we believe that we are in the position, in many ways, of being the "alternative", where customers are demanding the kind of collaboration and listening we do to develop integrated solutions.

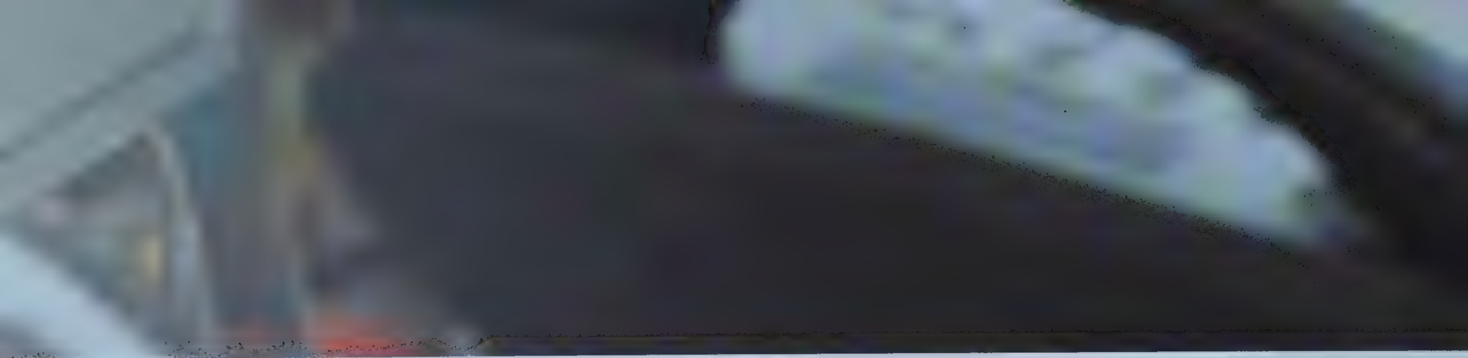
Brand assets – Nationally, the launch of the Allstream brand, which occurred in July 2003, has been a success in creating a perception in the market and with customers that our company is a differentiated, unique force in Canadian communications. In Manitoba, the MTS name has an unmatched reputation. Through our business activities and community involvement over many years, we are well positioned to maintain customer mindshare, and reinforce the message that MTS is the best choice in the regional market for residential or business customers.

Efficiency culture – We continually focus on improving efficiency and reducing costs in support of achieving long-term success. Historically, our operating cost metrics have consistently been among the lowest in the industry. As well, we are efficient and decisive in deploying new capital to support the business. We employ a rigorous process to ensure that every capital dollar spent contributes to the objective of ultimately delivering a superior shareholder return.



"Since 1999, Primus has had a strategic wholesale relationship with Allstream that helps us to offer Canadians true choice for long distance and local services. Through Allstream's state-of-the-art national network, we have expanded our highly successful TalkBroadband™ Voice over Internet Protocol service and launched a competitive residential local service across Canada. Today, we have more than 1,000,000 customers who have chosen Primus to meet their communications needs. I believe Allstream's collaborative approach is another reason for our successful partnership."

Ted Chislett
President
Primus Canada



SELECTED FINANCIAL INFORMATION

For the years ended December 31	2004	2003	2002
Consolidated (in millions $, except earnings per share and cash dividends declared per share)			
Revenues	1,524.9	858.5	942.6
Net Income	305.1	85.6	162.3
Basic Earnings Per Share	4.31	1.36	2.53
Diluted Earnings Per Share	4.27	1.35	2.51
Total Assets	2,964.1	1,683.0	1,617.7
Long-term Financial Liabilities	1,049.2	413.2	489.8
Cash Dividends Declared Per Share	1.80	0.94	0.82

Over the past three years, our Manitoba division has delivered steady underlying growth in financial performance. Results from our Manitoba division reflect:

> Strong growth in the newer communications service areas, including wireless, data, and MTS TV. These improvements were partially offset by lower overall results in the traditional telecommunications services of local and long distance.

> Our continuing efforts to reduce expenses in the low-growth traditional segments of the business to preserve margins and shift these expense dollars to support expansion in the newer high-growth areas, like wireless, data, and MTS TV services.

With the acquisition of Allstream in 2004, our financial profile changed substantially. On June 4, 2004, we acquired all of the issued and outstanding Class A voting shares and Class B limited voting shares of Allstream. With the acquisition of Allstream complete, we began consolidating Allstream's financial results, cash flows and financial position as of June 4, 2004. This is a major reason for the significant increases in 2004 in each of the items specified in the table above when compared to 2003 and 2002. Following this acquisition, on August 12, 2004, the Board of Directors increased MTS's quarterly cash dividend rate from $0.25 per share to $0.65 per share.

Our consolidated financial results, as presented above for the years 2004, 2003 and 2002, respectively, also reflect:

> The recognition of a one-time gain of $232.6 million ($188.8 million, net of taxes) associated with the exercise of our put option on February 2, 2004 to sell our investment in Bell West, which produced much higher earnings for us during the first quarter of 2004.

> The recording of a one-time charge of $75.0 million ($47.8 million, net of taxes) in the second quarter of 2004, relating to the Settlement Agreement with Bell. The one-time pre-tax cost is reflected in the line on our income statement entitled "Other (expense) income".

> The deconsolidation of Bell Intrigna from our financial results effective April 11, 2002. On this date, we adopted the equity method of accounting for our investment in Bell West as a result of our ownership position moving from 66.67% of Bell Intrigna to 40% of Bell West. As a result of the reduction in our ownership position, we also recognized a one-time $94.2 million pre-tax gain in the second quarter of 2002. Our 2003 results account for our 40% share of Bell West's net losses using the equity method of accounting for the entire year. The results for 2002 include the impact of consolidating Bell Intrigna until April 11, 2002, and equity accounting for our share of Bell West's net losses for the balance of 2002. Our 2004 results equity account for our 40% share of Bell West's net losses from January 1st to February 2nd. On February 2, 2004, we exercised our put option to sell our 40% ownership position in Bell West for $645.0 million.

> The impact of our substantial issuer bid, which we completed on September 27, 2004, resulting in the purchase for cancellation of 1,966,775 Class B Preference Shares for cash consideration of $84.6 million and 16,637,870 Common Shares for cash consideration of $716.2 million.

> The recording of a provision against the carrying value of a long-term investment in the pre-tax amount of $7.0 million in the fourth quarter of 2004.

> The recognition of restructuring and integration costs in 2004 in the amount of $5.5 million. These costs are associated with the integration of Allstream's operations following the completion of our acquisition.

> Workforce reduction initiatives that we undertook in the fourth quarter of 2003 and the fourth quarter of 2002, which resulted in restructuring charges of $5.1 million and $10.0 million, respectively.

> A change in our accounting policy for deferred alarm installation costs effective January 1, 2004. The 2003 and 2002 results have been retroactively restated to reflect this change.

> Earnings per share in 2003 and 2002 were impacted by our purchase of shares for cancellation pursuant to our normal course issuer bids (2003 – 881,336 Common Shares; 2002 – 811,615 Common Shares).

Consolidated Quarterly Results

The unaudited quarterly financial data for 2004 and 2003 is shown below.

(in millions $, except earnings per share)	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Operating Revenues	503.9	495.9	314.0	211.1
Operating Income	92.6	95.0	72.1	58.5
Net Income (Loss)	42.3	51.0	(6.7)	218.5
Basic Earnings (Loss) Per Share	0.63	0.61	(0.10)	3.47
Diluted Earnings (Loss) Per Share	0.63	0.61	(0.10)	3.43

(in millions $, except earnings per share)	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Operating Revenues	215.9	215.0	216.8	210.8
Operating Income	46.7	58.1	57.6	55.9
Net Income	12.7	24.5	24.0	24.4
Basic Earnings Per Share	0.20	0.39	0.38	0.39
Diluted Earnings Per Share	0.20	0.39	0.38	0.38

As noted in the three-year review, our Manitoba division historically has delivered consistently steady growth in financial performance. Beginning in the second quarter of 2004, we began consolidating Allstream's results, which is the primary reason for the significant increases in revenues, operating and net income in the third and fourth quarters of 2004. In addition to the steady performance of our Manitoba division, and the inclusion of our National division's results after June 4, 2004, our consolidated financial results for the eight most recently completed quarters reflect:

"As one of North America's premier financial institutions, Scotiabank understands the advantages of implementing new and innovative technologies. We recently turned to Allstream to migrate all of our retail branches across Canada to a Multiprotocol Label Switching (MPLS) IP network. Allstream's solution will provide high-speed access for these branches, enabling Scotiabank to increase productivity and deliver more value to customers."

J.P. Savage
Senior Vice President
Systems, Operations and Technical Services and Head, ScotiaIntek
Scotiabank

> The recognition of a one-time gain of $232.6 million ($188.8 million, net of taxes) associated with the exercise of our put option on February 2, 2004 to sell our investment in Bell West, which resulted in much higher earnings during the first quarter of 2004.
> The recording of a one-time charge of $75.0 million ($47.8 million, net of taxes) in the second quarter of 2004, relating to the Settlement Agreement with Bell. The one-time pre-tax cost is reflected in the line on our income statement entitled "Other (expense) income". This cost is the reason for the loss per share in the second quarter of 2004.
> Our 2003 results account for our 40% share of Bell West's net losses using the equity method of accounting for the entire year. Our 2004 results equity account for our 40% share of Bell West's net losses from January 1st to February 2nd. On February 2, 2004, we exercised our put option to sell our 40% ownership position in Bell West for $645.0 million.
> The impact of our substantial issuer bid, resulting in the purchase for cancellation of 1,966,775 Class B Preference Shares for cash consideration of $84.6 million and 16,637,870 Common Shares for cash consideration of $716.2 million in the third quarter of 2004.
> The recording of a provision against the carrying value of a long-term investment in the pre-tax amount of $7.0 million in the fourth quarter of 2004.
> The recognition of restructuring and integration costs in the fourth quarter of 2004 in the amount of $3.3 million, and in the amount of $2.2 million in the third quarter of 2004. These costs are associated with the integration of Allstream's operations following the completion of our acquisition.
> Workforce reduction initiatives that we undertook in the fourth quarter of 2003, which resulted in a restructuring charge of $5.1 million.
> A goodwill revaluation charge in the amount of $2.0 million which we took in the fourth quarter of 2003 related to our IT services (formerly referred to as e-business services).
> A change in our accounting policy for deferred alarm installation costs effective January 1, 2004.
> In addition, earnings per share in 2003 were impacted by our purchase of 881,336 Common Shares for cancellation pursuant to our normal course issuer bids.

RESULTS OF OPERATIONS

EPS ($)

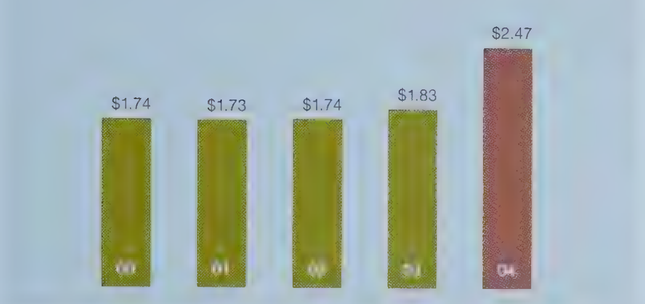
For the years ended December 31	2004	2003
EPS (Continuing Operations)	2.47	1.83
Gain on Sale of Investment in Bell West	2.67	–
Bell Settlement Costs	(0.67)	–
Impact from Bell West	(0.03)	(0.39)
Restructuring & Integration Costs	(0.05)	(0.05)
Investment Provision & Goodwill Revaluation	(0.08)	(0.03)
Basic EPS	4.31	1.36

Note: Earnings per share is based on the weighted average shares outstanding of 70.8 million for 2004, and 63.0 million for 2003.

In 2004, EPS from continuing operations climbed by 35.0% or $0.64 to $2.47. This improvement is attributable to the consolidation of Allstream's results effective June 4, 2004, together with growth from our Manitoba division. These factors were partly offset by higher debt charges and an increase in the weighted average number of shares outstanding (2004 – 70.8 million; 2003 – 63.0 million).

Basic EPS of $4.31 was considerably higher in 2004 when compared to 2003 due to the recognition of a gain from the sale of our 40% investment in Bell West during the first quarter of 2004, as well as the consolidation of Allstream's results. Partly offsetting the growth in basic EPS were a charge of $0.67 per share associated with the Bell Settlement Agreement, a provision against the carrying value of a long-term investment in the amount of $0.08 per share, as well as restructuring and integration costs in the amount of $0.05 per share related to the integration of Allstream. Basic EPS results for 2004 also reflect lower equity losses from Bell West. In 2003, basic EPS results were negatively impacted by a goodwill revaluation charge of $0.03 per share.

EPS (Continuing Operations)



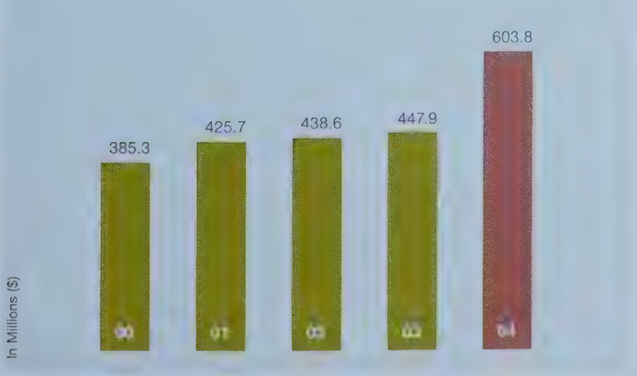
On a pro forma basis, EPS from continuing operations in 2004 was $2.76, which is largely unchanged from $2.77 in the prior year. This reflects lower EBITDA, which was largely offset by decreased amortization expense reflecting lower asset valuations at Allstream.

EBITDA FROM CONTINUING OPERATIONS

(in millions $)	2004	2003	% change
EBITDA from Continuing Operations	603.8	447.9	34.8

EBITDA from continuing operations rose to $603.8 million in 2004, representing a 34.8% increase over the previous year. This reflects the consolidation of Allstream's results effective June 4, 2004, along with growth from our Manitoba division. In 2004, the National division contributed $142.4 million to our EBITDA total for the year.

EBITDA (Continuing Operations)



"Through their contribution to the Public Sector Data Network (PSDN), MTS provides secure, reliable broadband services to government offices, hospitals and schools in Manitoba, supporting efforts to deliver health, education and government programs in Manitoba communities. The PSDN is also a key part of government's strategy to accelerate the deployment of commercial broadband services to businesses and residences throughout Manitoba. MTS has been a valuable provider to the Government of Manitoba throughout this program."

John Clarkson
Deputy Minister
Department of Energy, Science and Technology
Province of Manitoba

On a pro forma basis, EBITDA from continuing operations in 2004 came in at $675.8 million, which is down by 3.7% from 2003. This decrease reflects revenue attrition at our National division, which is mainly attributable to re-pricing in the enterprise market. In 2004, EBITDA was impacted positively by a number of factors, including lower salaries and benefits expenses, reduced branding costs, growth in EBITDA from the Manitoba division, as well as realized synergies in the amount of $5.5 million.

REVENUES

OPERATING REVENUES

(in millions $)	2004	2003	% change
Local Voice	462.6	347.5	33.1
Data	452.6	142.4	217.8
Long Distance Voice	336.7	134.0	151.3
Wireless	181.9	160.9	13.1
Other	91.1	73.7	23.6
Total	1,524.9	858.5	77.6

Our operating revenues include those earned from providing local voice, data, long distance voice, wireless, and other services.

Consolidated operating revenues reached $1,524.9 million in 2004, representing an increase of 77.6%. This positive variance reflects the consolidation of Allstream's financial results effective June 4, 2004, together with revenue growth from the Manitoba division. The National division contributed revenues of $666.8 million in 2004, which includes revenues generated by Qunara. With the acquisition of Allstream, Qunara's operations were fully integrated with the operations of our National division.

On a pro forma basis, for the twelve months ended December 31, 2004, consolidated operating revenues were $2,010.6 million, compared with $2,127.7 million in 2003. This decline is attributable to revenue decreases in long distance voice, data and local voice services, which was partly offset by continuing strong performance in our wireless and other services lines of business. MTS TV was the primary contributor to growth in other revenues in 2004.

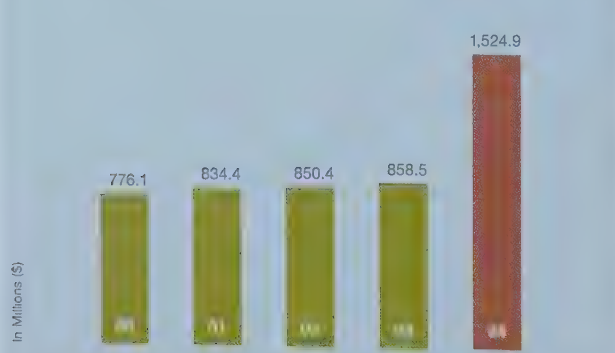
LOCAL VOICE SERVICES

(in millions $)	2004	2003	% change
Revenues	462.6	347.5	33.1

Local voice services revenues from our Manitoba division include basic voice connections for residential and business customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting, and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, as well as contribution revenue. Through our National division, we provide a full range of local services to business customers across Canada. These services allow customers to complete calls in their local calling areas and to access long distance, cellular networks, and the Internet. The local products provided by our National division offer a uniform service across all major markets in Canada.

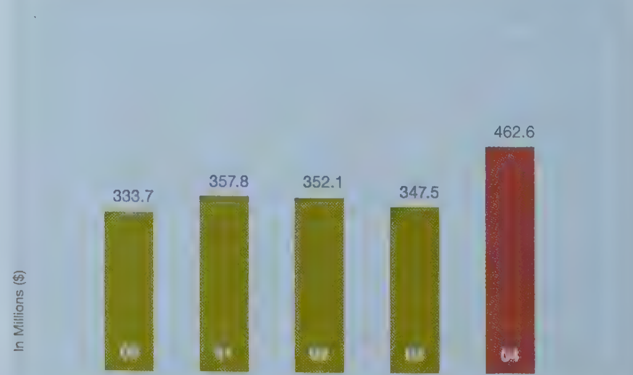
Local voice revenues increased by 33.1% to $462.6 million. This positive variance is attributable to the consolidation of Allstream's financial results effective June 4, 2004.

OPERATING REVENUES*



*Excludes revenues from Bell Intrigna.

LOCAL VOICE REVENUES



On a pro forma basis, local voice revenues decreased by 2.4% to $545.2 million in 2004. This decrease reflects lower NAS, reduced pricing for certain services flowing from *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34 ("Decision 2002-34"), and the re-pricing of certain long-term customer contracts. Year-over-year, local voice revenues have been impacted positively by higher contribution revenues, growth in enhanced services, and price increases on certain business services.

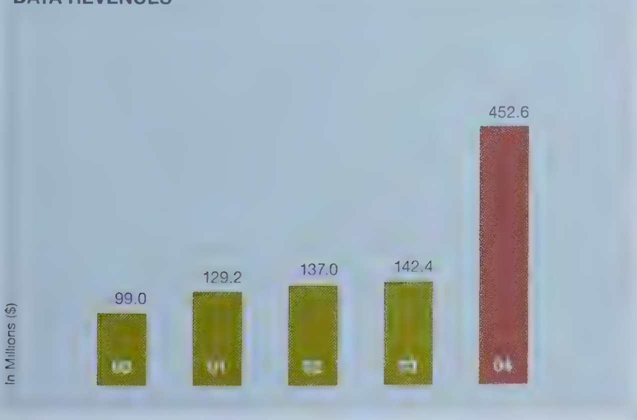
DATA SERVICES

(in millions $)	2004	2003	% change
Revenues	452.6	142.4	217.8

Our data line of business includes revenues earned from providing data connectivity, Internet and IT services. Data connectivity services connect data, video and voice networks to establish private connections across office locations and to integrate traffic over highly secure networks. We provide a wide range of Internet connectivity services to meet the needs of residential customers in Manitoba and business customers across the country. Our IT group helps customers automate their business processes using Web-based technologies and applications. In addition, our National division offers fully integrated managed hosting and security services.

Data services revenues rose to $452.6 million in 2004 from $142.4 million in the previous year. This increase is attributable primarily to the consolidation of Allstream's financial results effective June 4, 2004, together with growth in Internet revenues generated by our Manitoba division.

DATA REVENUES



"HBMS selected MTS as its single source communications service provider in large part because of MTS's executive level commitment to meet our high Quality of Service expectations. MTS has met or exceeded these expectations, upgrading our Meridian Option 61 Communications system; installing Megalink™ trunking and completing upgrades to our data network. Recently, HBMS and MTS began a project to significantly improve the digital cellular coverage in the Flin Flon area, building on our successful partnership."

Garth Thompson
Superintendent of Information Technology
Hudsons Bay Mining and Smelting Co., Limited

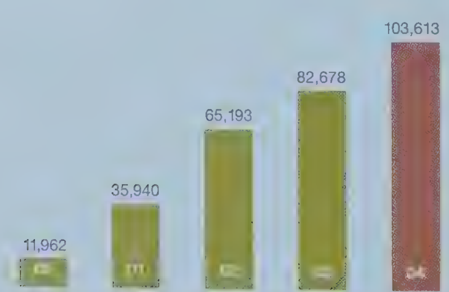
ONE
FUTURE

MANY
PAST SUCCESSES

MTS strives to make calculated decisions in the present, which will yield success in the future. Our track record over the years speaks to our commitment and strength of vision – and an ability to execute on our strategies, adapting to market conditions as they arise. This ability has allowed us to thrive amid constant change – and leaves us well-positioned to continue building on past successes into the future.

On a pro forma basis, revenues from data services declined by 6.3% to $679.5 million. This decrease reflects lower data connectivity revenues, which were partly offset by growth in high-speed Internet and IT services revenues. Declining data connectivity revenues are mainly due to pricing pressures for legacy services, as well as technology substitution. Data services revenues have been impacted positively by strong Internet revenue growth in our Manitoba division. This has been driven by high-speed Internet customer growth and select price increases. As at December 31, 2004, the total high-speed Internet customer base in our Manitoba division reached 103,613, which translates into 20,935 net customer additions during the year, or growth of 25.3%.

HIGH-SPEED INTERNET CUSTOMERS



LONG DISTANCE VOICE SERVICES

(in millions $)	2004	2003	% change
Revenues	336.7	134.0	151.3

Long distance voice services enable residential customers in Manitoba and business customers across Canada to communicate with destinations outside the local exchange. Our long distance voice service portfolio includes basic, domestic, cross-border and international outbound long distance, basic and enhanced toll-free services, calling cards and audio conferencing, as well as a variety of enhanced long distance services and features.

In 2004, long distance voice services revenues rose by 151.3% or $202.7 million to $336.7 million. This increase reflects the consolidation of Allstream's financial results effective June 4, 2004.

On a pro forma basis for the year ended December 31, 2004, our long distance revenues dropped by $89.9 million or 15.0% to $509.5 million. This decrease reflects strong competitive pressures contributing to re-pricing and some customer losses, lower domestic calling volumes, the discontinuation of a customer's requirements for wholesale service in the third quarter of 2003, as well as lower residential long distance revenues. The decline in long distance voice revenues has been partly mitigated by higher international calling volumes, as well as the early success of our dial-around service, known as less2talk™, which was launched earlier this year in the Alberta and British Columbia markets. In January 2004, we increased our network charge in the residential market of Manitoba on certain long distance plans from $1.25 to $1.95, which also had a favourable impact our long distance revenue performance.

1997 JANUARY
The Manitoba Telephone System becomes a publicly traded company under a new name: Manitoba Telecom Services Inc.

1998 JUNE
MTS acquires AAA Alarm Systems Ltd., a leading provider of security and monitoring services for business and residential customers in Western Canada.

1999 FEBRUARY
MTS and Bell Canada enter into a strategic alliance and launch Bell Intrigna Inc. in Western Canada.

2000 SEPTEMBER
MTS launches NexGen, a $300 million service initiative to provide 85% of residential customers dedicated access to broadband services like DSL High Speed Internet.

2002 APRIL
MTS converts its two-thirds ownership in Bell Intrigna to a 40% stake in the larger Bell West, and secures a put option worth $645 million.

2003 JANUARY
MTS's digital television service, MTS TV, is launched in Winnipeg with the plan of offering the service to 85% of Winnipeg residents by end of 2005.

2003 NOVEMBER
MTS eclipses the 250,000-subscriber mark in wireless. The total customer base grows to 255,657 in 2003 – a 9.2% year-over-year increase.

2004 FEBRUARY
MTS exercises its put option and sells its 40% stake in Bell West for $645 million in cash – a solid return on investment.

2004 MARCH
MTS announces an historic $1.6 billion acquisition of Allstream to become the third largest national telecommunications provider in Canada.

2004 APRIL
MTS announces an annual dividend of $2.60 per share – a 160% increase from the previous year.

2004 OCTOBER
Allstream is the first to market with national, network resident IP telephony service, enabling large and small service providers to deploy residential voice services in a quick, capital-efficient manner.

2004 NOVEMBER
MTS Centre, one of the most "wired" sports and entertainment facilities in North America, opens in Winnipeg, showcasing MTS technology.

2004 NOVEMBER
MTS installs service to its 100,000th DSL High Speed Internet customer.

2004 DECEMBER
More than 32,500 customers have signed up for MTS TV by the end of year 2004 – 25% higher than the original year-end target of 26,000.

2004 DECEMBER
Allstream and BT announce a strategic relationship that leverages IP-based technology to offer solutions to Canadian and multinational companies with cross-border and international requirements.

LONG DISTANCE VOICE REVENUES

WIRELESS REVENUES

WIRELESS SERVICES

(in millions $)	2004	2003	% change
Revenues	181.9	160.9	13.1

Our wireless portfolio consists of cellular, wireless data, paging and group communications services that we offer in the Manitoba market.

Wireless services delivered another year of double-digit growth, with revenues increasing by 13.1% to $181.9 million. This level of performance reflects continuing strong customer growth, complemented by improvements in average monthly revenue per customer ("ARPU"). As at December 31, 2004, our wireless customer base totalled 285,796 customers, which represents growth of 11.8% or 30,139 customers from a year ago. We anticipate continuing, strong double-digit growth in wireless revenues and customers in 2005.

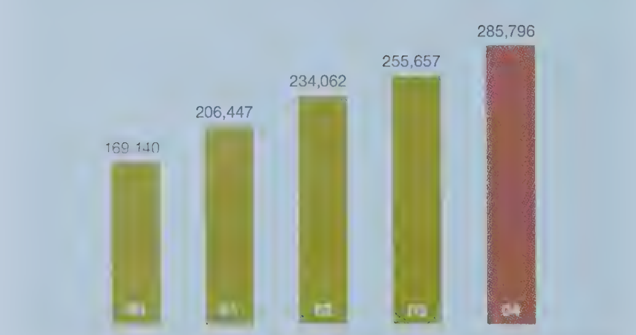
ARPU climbed to $54.26 in 2004, from $52.47 at the end of 2003. This 3.4% increase reflects improvements in both postpaid and prepaid ARPU. Postpaid ARPU growth has been driven by increased average airtime usage per customer, reflecting the popularity of wireless data and other enhanced features, our change from per second to per minute billing for consumer rate plans, select price increases on enhanced services, as well as our change to the "peak hour" clock in the fourth quarter of 2003 which provided for a later start time for off-peak calling. Growth in prepaid ARPU reflects increased usage, changes made to voucher expiry dates, as well as the implementation of certain enhanced features, such as voice mail and text messaging.

ONE
INFRASTRUCTURE

MANY
MARKETS

With the acquisition of Allstream, our national IP-based broadband fibre optic network spans more than 24,000 kilometres, with infrastructure in all of Canada's main business centres. MTS is using this increased presence to expand its reach beyond the borders of Manitoba, to offer leading-edge communications solutions to customers across Canada.

WIRELESS CUSTOMERS



In 2004, we continued to drive profitable growth from our wireless network. At year-end 2004, we had extended 1xRTT capabilities to 97% of Manitoba's population. 1xRTT, which first was launched in Winnipeg in November 2002, enables us to improve the capacity of our network for voice services, and to offer more data-intensive services. In 2004, our 1xRTT capabilities supported the introduction of picture messaging and WAP 2.0 – a standard which provides colour and enhanced graphics for Internet access over a cellular telephone. During the year, we experienced strong growth in revenues from wireless data services, and anticipate increased usage and customer acceptance of data services going forward.

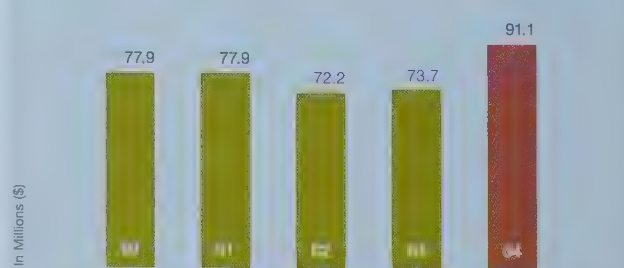
OTHER

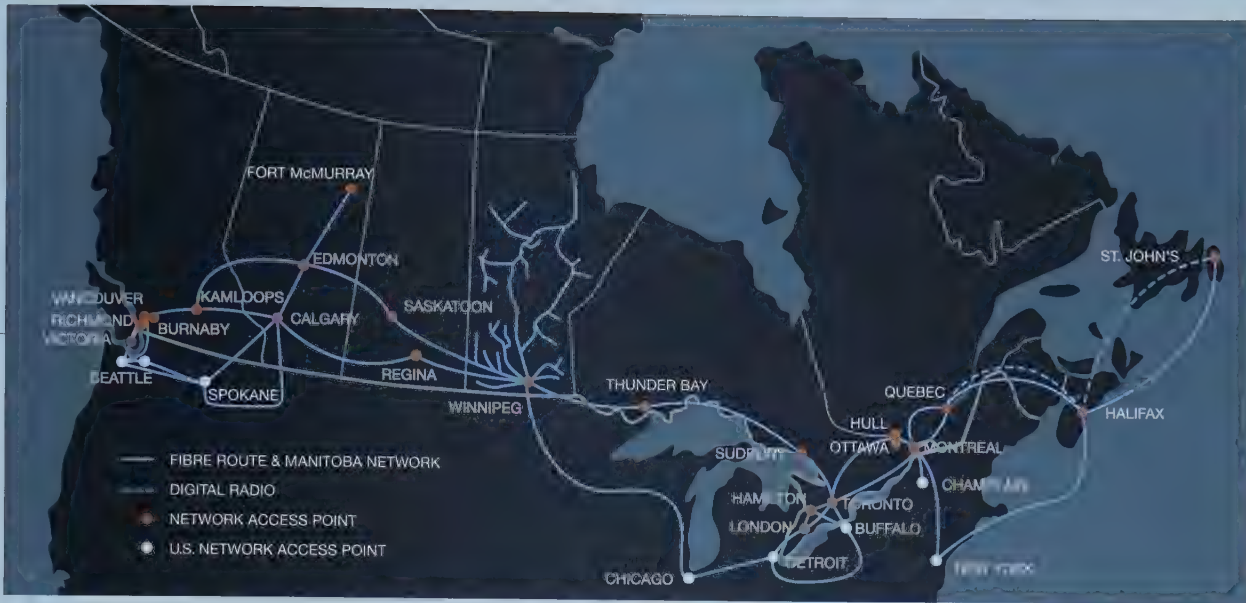
(in millions $)	2004	2003	% change
Revenues	91.1	73.7	23.6

Other revenues consist of revenues earned from our directory business, digital television services and miscellaneous items. Directory revenues mainly include our Yellow Pages™ and White Pages telephone directories. Our digital television service, known as MTS TV, is offered across our broadband network platform to residential customers in Winnipeg. Miscellaneous revenues primarily consist of security services and the sale and maintenance of terminal equipment.

Other revenues climbed by 23.6% to $91.1 million in 2004. This improvement reflects the consolidation of Allstream's results effective June 4, 2004, together with a strong ramp-up in revenues from MTS TV, higher miscellaneous items and modest improvements in directory services.

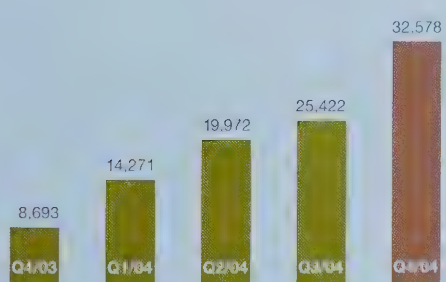
OTHER REVENUES





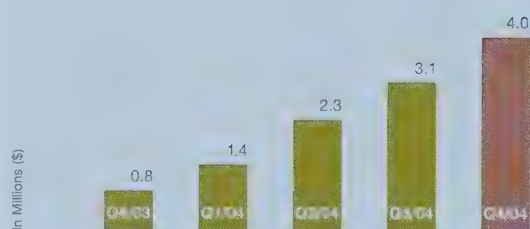
2004 was marked by excellent growth in our MTS TV customer base. We surpassed our year-end target ranging from 26,000 to 28,000 customers, with 32,578 installed customers as at December 31, 2004. We also pushed past our goal of extending network coverage to 66% of Winnipeg by December 31, 2004. At year-end, 72.8% of Winnipeg had access to MTS TV service, which is up significantly from 42.0% at the end of 2003. We anticipate that MTS TV will be an important contributor to our long-term growth and success. MTS TV continues to stimulate demand for our high-speed Internet service. As at December 31, 2004, approximately 60% of our entire TV customer base were also high-speed Internet customers.

MTS TV INSTALLED CUSTOMERS



On a pro forma basis, other revenues rose 13.2% to $94.5 million due to strong customer growth in MTS TV and improvements in directory services. Revenues generated by our MTS TV service rose to $10.8 million for the entire year, which is up significantly from $1.3 million in 2003.

MTS TV REVENUES



OPERATING EXPENSES

OPERATING EXPENSES

(in millions $)	2004	2003	% change
Operations	921.1	410.6	124.3
Restructuring and Integration Costs	5.5	5.1	7.8
Amortization	280.1	224.5	24.8
Operating Expenses	1,206.7	640.2	88.5

Our operating expenses totalled $1,206.7 million in 2004, as compared to $640.2 million in 2003. The increases in operations and amortization expense are attributable primarily to the consolidation of Allstream's results effective June 4, 2004. Restructuring and integration costs in 2004 reflect efforts to integrate certain aspects of the operations of our National division and our Manitoba division.

ONE
INVESTMENT

MANY
RETURNS

MTS's business strategy emphasizes long-term profitability and strong cash flows so that it can continue to deliver attractive dividends and secure lasting shareholder value.

OPERATIONS

(in millions $)	2004	2003	% change
Operations	921.1	410.6	124.3

During 2004, operations expense increased by 124.3% or $510.5 million to $921.1 million. The primary reason for this change was the consolidation of Allstream's financial results effective June 4, 2004.

On a pro forma basis, operations expense totalled $1,334.8 million in 2004, which is down by 6.4% from the previous year. This decrease reflects lower cost of goods sold, lower salaries and benefits expenses, reduced branding costs, and synergies arising from the integration of Allstream. Cost of goods sold has declined as a result of lower volumes and international rates, as well as a number of regulatory decisions which impacted our National division positively. The decline in cost of goods sold was partly offset by higher international volumes, and increased costs to fund our higher growth operations.

RESTRUCTURING AND INTEGRATION COSTS

(in millions $)	2004	2003	% change
Restructuring and Integration Costs	5.5	5.1	7.8

We estimated that the total costs associated with the acquisition of Allstream would be approximately $90 million. This amount includes costs for MTS and Allstream professional fees ($24 million), which were included in the accounting for the acquisition of Allstream; costs related to restructuring and integration ($28 million), which were set up as a liability; and additional transition costs ($38 million), which were anticipated to be incurred in 2004 and 2005 and which will be expensed or capitalized where appropriate.

The liability of $28.0 million was set up for costs related to severance and for consolidating facilities, systems and operations of the acquired company. As at December 31, 2004, total costs charged against this liability were $9.6 million, leaving an outstanding liability of $18.4 million. The additional transition costs ($38 million) are a mix of expenses estimated at approximately $16 million and capital expenditures of approximately $22 million, and are expected to largely be incurred over 2004/2005. Of the $16 million, we expensed $5.5 million in 2004.

In 2003, we recorded restructuring costs in the amount of $5.1 million, which represented severance costs and other employee-related costs associated with the elimination of approximately 85 positions.

AMORTIZATION

(in millions $)	2004	2003	% change
Amortization	280.1	224.5	24.8

Amortization expense was $280.1 million in 2004, as compared to $224.5 million in the prior year. This 24.8% increase reflects the consolidation of Allstream's assets, which resulted from the completion of our acquisition of Allstream on June 4, 2004.

GAIN ON SALE OF INVESTMENT IN BELL WEST

(in millions $)	2004	2003	% change
Gain	232.6	–	n/m

SHAREHOLDER VALUE

Over the years, MTS has delivered an excellent return to its investors through solid execution of its core business practices, strategic growth opportunities, and innovative, revenue-building initiatives.

DIVIDEND

MTS has consistently met its capital investment needs while delivering an attractive dividend yield. In 2004, MTS increased its annual per share dividend to $2.60, to rank as one of the highest-yielding stocks in Canada.

LONG-TERM OUTLOOK

MTS is competitive, but cautious, with a pragmatic business approach in order to continue to deliver sustained growth and long-term profitability to the benefit of its shareholders. We expect our investment approach and focus on value-added services, building on traditional connectivity, to deliver profitable revenue growth into the future.

On February 2, 2004, we exercised our put option to sell our 40% interest in Bell West to Bell for $645.0 million. We received cash proceeds of $645.0 million from Bell on August 3, 2004. With the exercise of this put option, we recognized a one-time gain of $232.6 million ($188.8 million, net of taxes). This gain represents the difference between the proceeds received from the exercise of the put option and the net book value of Bell West on February 2, 2004.

EQUITY LOSSES

(in millions $)	2004	2003	% change
Bell West Impact	2.5	29.8	(91.6)

With the exercise of our put option on February 2, 2004 to sell our 40% ownership position in Bell West to Bell, we stopped recognizing equity losses from Bell West on February 3, 2004. For the year ended December 31, 2004, our portion of Bell West's net losses totalled $2.5 million, as compared to our share of Bell West's net losses in 2003, which was $29.8 million. Our results in 2004 represent MTS's share of Bell West's net losses from January 1, 2004 to February 2, 2004, while our 2003 results include our share of Bell West's net losses for the entire year.

GOODWILL REVALUATION

(in millions $)	2004	2003	% change
Goodwill Revaluation	–	2.0	n/m

We test the valuation of goodwill on an annual basis or earlier when events or changes in circumstances indicate that goodwill might be impaired. During the fourth quarter of 2003, we recorded a goodwill revaluation charge related to our IT services operations. This charge was primarily attributable to restructuring efforts, and was determined to be appropriate given the softer market conditions in the IT services segment occurring at that time. In 2004, as a result of our annual impairment testing, it has been determined that there is no requirement to revalue goodwill.

OTHER (EXPENSE) INCOME

(in millions $)	2004	2003	% change
Other (Expense) Income	(74.2)	3.9	n/m

In 2004, we incurred other expense of $74.2 million, versus other income of $3.9 million in 2003. The reason for this variance relates to the costs associated with the Settlement Agreement with Bell incurred in the second quarter of 2004, as well as a $7.0 million provision taken against the carrying value of a long-term investment recorded in the fourth quarter of 2004. As part of the Settlement Agreement, we paid Bell a one-time amount of $75.0 million ($47.8 million, net of taxes). This $75.0 million was recorded as an expense, and is reflected in our results of operations for the twelve-month period ended December 31, 2004. Our 2004 results also reflect increases in certain miscellaneous items, including an increase in income earned from short-term investments, which partly offset the one-time settlement expense and investment provision.

ONE
VISION

MANY
OPPORTUNITIES

MTS maintains a clear vision, firmly focused on the development and implementation of leading-edge communications services. Through our core business of telecommunications connectivity, and select adjacencies in related markets, we offer our customers an outstanding product and service portfolio, including solutions to meet a wide range of needs.

DEBT CHARGES

(in millions $)	2004	2003	% change
Debt Charges	47.8	33.2	44.0
Average Weighted Cost of Debt	6.20%	6.18%	n/m
Debt/Total Capital Ratio	40.9%	37.4%	n/m

Debt charges were $47.8 million in 2004, which is 44.0% higher as compared to 2003. This change reflects increased interest charges associated with higher average levels of outstanding debt (which includes long-term debt and commercial paper). At year-end, we had $956.3 million of outstanding debt, as compared to $529.3 million as at December 31, 2003. We issued additional debt in 2004 to finance our acquisition of Allstream, as well as to fund a portion of our purchase of approximately $800 million of shares for cancellation pursuant to our substantial issuer bid, which was completed on September 27, 2004. Through this process, we established our debt to total capitalization ratio at 40.9%, which provides us with continuing financial strength and flexibility going forward.

INCOME TAXES

(in millions $)	2004	2003	% change
Income Tax Expense	121.2	71.6	69.3
Effective Tax Rate	28.4%	45.5%	n/m

Income tax expense in 2004 was $121.2 million, as compared to $71.6 million in 2003. Income tax expense was considerably higher in 2004 due to a number of factors, including the recognition of the Bell West gain, higher operating income, lower equity losses, as well as marginally higher large corporations tax. These items were partly offset by the tax effect of the Bell Settlement Agreement expense and lower year-over-year tax rates.

Our effective tax rate has decreased from 45.5% in 2003 to 28.4% in 2004, primarily due to the impact of the gain from the sale of our investment in Bell West in the first quarter of 2004, as well as a general reduction in statutory tax rates. Taxes on the Bell West gain were $43.8 million ($38.0 million current; $5.8 million future) reflecting the lower capital gains rate.

As a result of the Allstream acquisition on June 4, 2004, we have the benefit of tax loss carryforwards, which enables us to reduce taxes payable for a number of years going forward. The impact of the utilization of these tax losses essentially eliminated cash taxes on earnings for the seven-month period from June to December 2004.

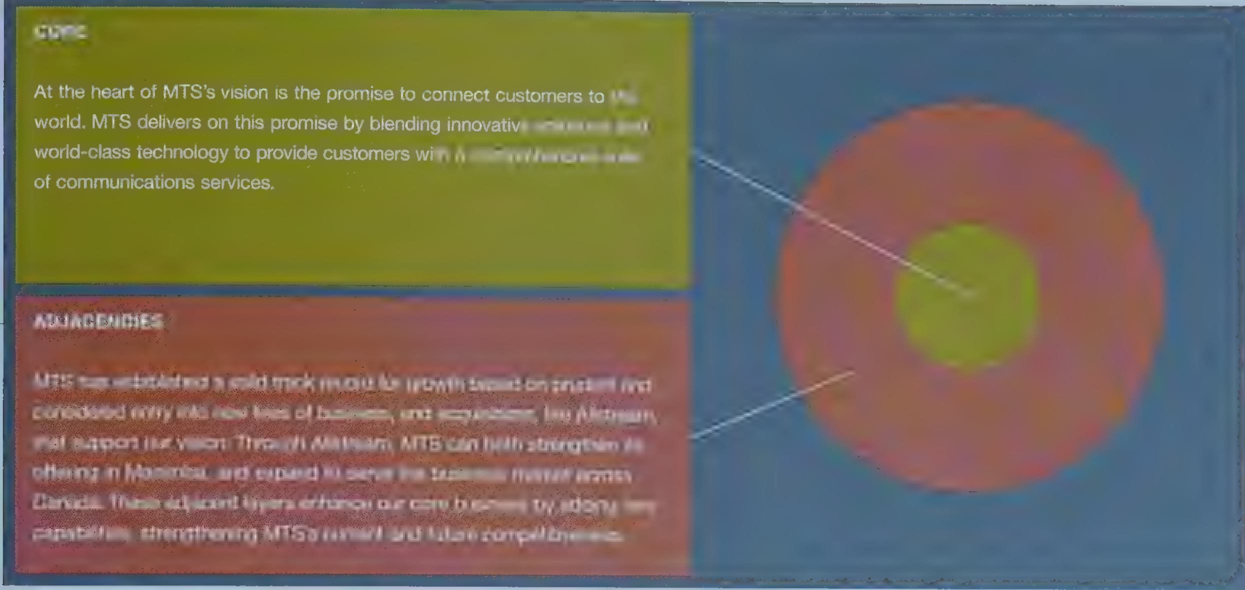
LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATIONS

(in millions $)	2004	2003	$ change
Cash Flows from Operating Activities	362.5	324.7	37.8

Cash flows from operating activities refers to cash we generate from our normal business activities.

Cash flows from operating activities were $362.5 million in 2004, as compared to $324.7 million in 2003. This $37.8 million change reflects the addition of operating cash flow from the National division, lower cash taxes due to the utilization of loss



carryforwards, and organic growth from the Manitoba division. This improvement was partly offset by our payment of $75.0 million to Bell pursuant to the Settlement Agreement, increased pension funding of $54.2 million, a net decrease in cash from changes in working capital of $32.5 million, higher debt charges (which increased by $14.6 million), and deferred wireless costs (which increased by $9.9 million).

Going forward, we will continue to fund the aggregate normal cost of the pension plans of both the Manitoba division and the National division, as well as the remaining special payments respecting the unfunded positions of the pension plans over a five-year period. These requirements will be sourced from our normal cash flows from operations. Based on our most recently completed actuarial funding valuation, special payments for our pension plans are forecasted to be approximately $60 million in each of the years 2005 to 2007, and approximately $35 million in 2008.

INVESTING ACTIVITIES

(in millions $)	2004	2003	$ change
Cash Flows from (used in) Investing Activities	125.8	(288.0)	413.8

Investing activities represent cash used for acquiring, and cash received from disposing of, long-term assets and other long-term investments.

Cash flows from investing activities were $125.8 million in 2004, as compared to ($288.0) million in 2003. This increase reflects cash inflows of $645.0 million resulting from the sale of our investment in Bell West, as well as lower funding to Bell West (2004 funding to Bell West – $8.0 million; 2003 funding to Bell West – $80.0 million). Cash flows from investing activities were partly offset by cash used for the acquisition of Allstream (net of cash acquired and transaction costs) in the amount of $226.4 million, as well as cash used for a wireless broadband venture (as described in the section entitled "Allstream/Inukshuk/NR Communications Venture" in *Risks and Uncertainties*), and for the acquisition of two security companies by AAA Alarm Systems Ltd. ("AAA Alarm").

Capital Expenditures

In 2004, capital was principally allocated to fund our higher growth segments, as well as to sustain the foundation of the business. In 2004, capital expenditures totalled $278.3 million, as compared to $208.1 million in 2003. The primary reason for this increase is the consolidation of our National division's capital expenditures. On a pro forma basis, consolidated capital expenditures were $316.5 million.

FREE CASH FLOW

(in millions $)	2004	2003
Consolidated	498.8	14.7
Bell West Funding	8.0	80.0
Allstream Acquisition	226.4	–
Bell Settlement Costs	75.0	–
Put Proceeds	(645.0)	–
Restructuring & Integration Costs	5.5	3.4
Free Cash Flow (Cont. Operations)	168.7	98.1

Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares for cancellation, or retiring debt.

ONE
SOLID PLATFORM

MANY
GAINS

Consolidated free cash flow totalled $498.8 million in 2004, as compared to $14.7 million in 2003. This change reflects the receipt of $645.0 million from the sale of our investment in Bell West, higher EBITDA, and lower funding to Bell West. Partly offsetting these factors were cash required for our acquisition of Allstream, the Bell Settlement Agreement payment, higher pension plan funding (which increased by $54.2 million), and higher cash restructuring costs associated with the integration of Allstream. Growth in consolidated free cash flow also was offset by funding to a wireless broadband venture, as well as cash used for the acquisitions of two security companies.

For all of 2004, free cash flow from continuing operations climbed to $168.7 million from $98.1 million in 2003. This variance is primarily due to higher EBITDA flowing from the acquisition of Allstream and lower cash taxes, which was partly offset by increased pension funding and deferred wireless costs.

FINANCING ACTIVITIES

(in millions $)	2004	2003	$ change
Cash Flows used in Financing Activities	(452.3)	(31.5)	(420.8)

Financing activities refer to actions we undertake to fund our operations through equity capital and borrowings.

For the twelve months ended December 31, 2004, cash flows used in financing activities reflect the purchase of 18.6 million shares for cancellation for cash consideration of $800.8 million pursuant to our substantial issuer bid, and dividends paid of $90.8 million. These cash outflows were partly offset by cash inflows of $427.0 million resulting from the issuance of long-term debt ($570.0 million issued, net of $75.0 million long-term debt repaid on maturity and $68.0 million for the repayment of notes payable).

CREDIT FACILITIES

(in millions $)	Capacity	Utilized at Dec 31/04
Medium Term Note Program	350.0	220.0
Commercial Paper	150.0	–
Operating Line of Credit	50.0	13.4
Total	550.0	233.4

We have arrangements in place that allow us to access the debt and commercial paper markets for funding when required. Borrowings under these facilities are typically used to fund new initiatives, refinance maturing debt, and manage cash flow fluctuations.

On June 10, 2004, we issued $350 million of medium term notes. This issue consisted of $150 million of 5-year notes and $200 million of 10-year notes, with coupon rates of 5.25% and 6.15%, respectively. These funds were used to finance our acquisition of Allstream and to repay short-term notes payable. During the third quarter, we renewed our medium term note program, and on September 27, 2004, we issued an additional $220 million in medium term notes, which consisted of 7-year notes bearing a coupon rate of 5.20%.

We have additional credit facilities available in the amount of $200.0 million, which consist of a commercial paper program of $150.0 million, and a $50.0 million operating line of credit. As at December 31, 2004, our commercial paper program was

Over the years, MTS has proven itself a stable, dependable company with a strong balance sheet and healthy cash flow. As part of its forward-looking business strategy, MTS continues to reinvest in its infrastructure to ensure that it maintains a competitive edge, meets the needs of customers today and tomorrow, and delivers revenue into the future.

not utilized, and we had $13.4 million in undrawn letters of credit outstanding against our operating line of credit.

CAPITAL STRUCTURE

(in millions $)	Dec 31/04	Dec 31/03
Long-term Debt and Notes Payable	956.3	529.3
Shareholders' Equity	1,384.6	887.5
Total Capitalization	2,340.9	1,416.8
Debt to Capitalization	40.9%	37.4%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. In connection with our acquisition of Allstream, we issued Common Shares and Class B Preference Shares to Allstream shareholders, along with net cash of $226.4 million. As well, on August 3, 2004, we received the $645.0 million proceeds from the sale of our 40% interest in Bell West, leaving the equity component of our capital structure relatively high when compared to net debt.

In order to bring our capital structure back to a more efficient level, we launched a substantial issuer bid on August 12, 2004 to purchase for cancellation approximately $800 million of our issued and outstanding Common Shares and Class B Preference Shares. This substantial issuer bid was carried out through a "Dutch auction" process. On September 27, 2004, pursuant to the substantial issuer bid, we purchased 16,637,870 Common Shares and 1,966,775 Class B Preference Shares for cancellation, returning approximately $800 million to shareholders. During 2004, we issued $570.0 million in long-term debt. Proceeds from the debt issuances have been used, in part, to fund our acquisition of Allstream, to refinance maturing debt, and to fund a portion of the $800 million substantial issuer bid.

Following our recently completed substantial issuer bid, we launched a normal course issuer bid on December 15, 2004, which allows us to purchase up to 3,360,000 Common Shares, or approximately 5% of the public float, for cancellation. Purchases of Common Shares will be made for cancellation on the open market through the facilities of The Toronto Stock Exchange ("TSX") at market prices over a 12-month period commencing December 15, 2004 and ending no later than December 14, 2005. These purchases will be made where management is of the view that the acquisition of Common Shares is the most appropriate use of MTS's funds. It also is expected that the purchase of Common Shares pursuant to this normal course issuer bid will enhance the value of our remaining shares.

CREDIT RATINGS

DBRS – Senior debentures	Trend: Stable	BBB (high)
DBRS – Commercial paper	Trend: Stable	R-1 (low)
S&P – Senior debentures	Outlook: Stable	BBB +
S&P – Commercial paper	Outlook: Stable	A-1 (Low)

Two leading rating agencies, Dominion Bond Rating Service ("DBRS") and Standard & Poor's ("S&P"), analyze MTS and assign ratings based on their assessments. We consistently have been assigned solid investment grade credit ratings. DBRS's rating on our senior debentures is "BBB (high)" and "R-1 (low)" on our commercial paper. S&P's rating of our long-term corporate credit and senior unsecured debt is "BBB +", and our commercial paper is rated "A-1 (Low)". DBRS confirmed our credit ratings in

ONE
TEAM

MANY
ABILITIES

Combining the distinct and complementary abilities of both MTS and Allstream, we have established a powerful, national management team with broad experience, proven ability and a united vision for the future.

conjunction with our most recent debt offering in September 2004. On December 24, 2004, S&P confirmed our credit ratings.

OUTSTANDING SHARE DATA AT FEBRUARY 22, 2005

Authorized:

> Unlimited number of Preference Shares of two classes issuable in one or more series

> Unlimited number of Common Shares of a single class

ISSUED:

Shares	Number	Book Value (in millions $)
Common	67,668,667	1,312.2

STOCK OPTIONS:

Options	Number	Weighted Average Exercise Price Per Share
Outstanding	1,983,650	$38.97
Exercisable	613,330	$31.27

We issued Class B Preference Shares on June 4, 2004 as part of the consideration we paid for the acquisition of all of the issued and outstanding shares of Allstream. As specified in our Articles, the Class B Preference Shares are convertible into Common Shares on a one-for-one basis at the option of the holder at any time subject to foreign ownership restrictions, or upon the occurrence of certain events, or at our option at any time. Since the Class B Preference Shares first were issued, over 85% of these shares were converted into Common Shares by the holders of these shares. Given the minimal number of Class B Preference Shares that remained issued and outstanding, we converted the remaining Class B Preference Shares into Common Shares on November 30, 2004. In connection with this conversion, our Class B Preference Shares were delisted from the TSX effective November 30, 2004.

CONTRACTUAL OBLIGATIONS

(in millions $)	2005	2006	2007	2008	2009	After
Long-term Debt	60.1	48.1	106.5	89.7	220.0	431.9
Capital Leases	2.1	2.1	2.1	2.2	2.2	18.8
Operating Leases	76.3	63.8	53.5	48.2	41.3	209.4
Purchase Obligations	147.1	87.6	79.3	70.7	41.0	21.3
Total	285.6	201.6	241.4	210.8	304.5	681.4

Contractual Obligations

Our contractual obligations as at December 31, 2004, are provided in the table above. Our long-term debt consists of medium term notes. We issue medium term notes for general corporate and working capital purposes, and for financing investments and additions to property, plant and equipment. We have equipment under capital leases. We rent buildings, operating facilities, construction and other equipment under operating leases. Purchase obligations include contractual commitments for services required in the normal course of operations, as well as capital purchase commitments under supply contracts and customer contracts.

Financial Instruments, Off-Balance Sheet Arrangements, and Other Financial Arrangements

Foreign Currency Forward Contracts

Effective January 1, 2004, we began using foreign currency forward contracts to manage the price of certain of our U.S. dollar purchases. These instruments are accounted for as hedges of anticipated transactions and are not recorded on our balance sheet. As at December 31, 2004, we did not have any outstanding foreign currency forward contracts.

Commitment

On May 30, 2002, the CRTC issued Decision 2002-34, which governs local rates charged to residential and business customers and the rates that incumbent telephone companies may charge their competitors. In this decision, the CRTC established a regulatory deferral account mechanism, which is to be used to fund qualifying initiatives, such as rate reductions, rebates and service improvement plans. We estimate our deferral account commitment to be approximately $16.0 million as at December 31, 2004.

Guarantees

In the normal course of business and in connection with the disposition of assets, MTS enters into agreements providing indemnifications that may require us to pay for costs or losses incurred by the parties to these agreements. These indemnifications relate to various matters such as intellectual property right infringement, loss or damage to property, claims arising from the provision of services, violation of laws or regulations, and breaches of representations or warranties. The nature of these indemnifications prevents us from making reasonable estimates of the maximum potential amount we could be required to pay, and no amount has been recorded in the financial statements

ONE
COMPANY

MANY
INDIVIDUALS

There are 6,600 dedicated employees who make up the face of MTS – each is an integral part of the organization. These individuals each contribute to a diverse range of skills and capabilities, but it is their ability to execute on strategy that makes MTS's employees stand out – and makes them unparalleled in our industry.

relating to these indemnifications. Historically, we have not made significant payments related to these indemnifications.

Employee Future Benefits

We have two contributory defined benefit best average pension plans and one non-contributory defined benefit pension plan. These pension plans provide pensions based on length of service and best average earnings. These pension plans are funded as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. We also have a defined contribution pension plan, which covers certain employees of our National division. We also provide supplemental pension arrangements and other non-pension employee future benefits that are unfunded with the exception of the long-term disability plan for the Manitoba division, for which we have dedicated assets set aside to fund benefits.

Transactions with Related Parties

Prior to June 30, 2004, we had an operating alliance with Bell, which gave us distribution rights in Manitoba for products and services offered by Bell. We were subject to significant influence by Bell due to its ownership of our Common Shares and Class A Preference Shares, as well as its representation on our Board of Directors.

On August 3, 2004, we received gross proceeds of $645.0 million from Bell in connection with the sale of our ownership interest in Bell West, which completed the transaction that began with the exercise of our put option on February 2, 2004.

On July 2, 2004, we announced that a Settlement Agreement with Bell had been signed, which provides for, among other things, the unwinding of a series of commercial and business arrangements and the termination of all legal proceedings against us and Allstream. As part of the Settlement Agreement, we paid Bell a one-time amount of $75.0 million ($47.8 million, net of taxes) on August 3, 2004. We received resignations from Bell's three representatives on our Board of Directors. Bell disposed of its equity interest in us in September 2004. As such, the two companies are no longer related parties.

We have an agreement with Bell to unwind the existing commercial arrangements in a manner that maintains customer service, protects confidential information and enables both companies to satisfy existing obligations to third parties. While both companies will continue to be preferred suppliers of wholesale services to each other, all commercial arrangements will be on a non-exclusive basis, at rates and on terms comparable to those generally available to Bell or us in the market. In addition, we agreed to compete freely with each other in Canada. The existing cellular agreements between Bell and us will remain in effect in accordance with their terms.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our consolidated financial statements in accordance with Canadian GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We make these estimates and assumptions based on reasonable methodologies, established processes and comparisons to industry standards. We continuously evaluate these estimates and assumptions. These estimates and assumptions rely on the use of professional judgment. Because professional judgment involves inherent uncertainty, actual

results could differ from our estimates. Our estimates, assumptions and methods have been applied consistently.

Accounting for Business Combinations

The determination and allocation of the purchase price paid for Allstream are based on management's best estimates and take into account all of the relevant information at the time that our consolidated financial statements are prepared. This process involves making estimates and assumptions in determining the fair value of the assets acquired and the liabilities assumed.

The following are significant estimates and assumptions we used in determining the fair value of certain assets and liabilities acquired upon the purchase of Allstream. In determining the fair value of property, plant and equipment, we considered the estimated useful lives of assets as well as current replacement costs. The fair value of certain intangible assets, consisting of customer contracts and relationships, was determined by estimating future cash flows associated with these customers and using a discount factor. The fair value of our obligations for Allstream's operating leases and rights-of-way supply contracts was based on estimated market values. Liabilities relating to the restructuring and integration of Allstream's operations included estimated severance and employee-related costs, as well as estimated costs to consolidate facilities, systems and operations.

Employee Future Benefits

The current actuarial assumptions used in determining our accrued benefit obligations for our pension and other employee future benefit plans include a discount rate of 6.25% for pension liabilities, 6.00% to 6.25% for the non-pension employee future benefits liabilities, and a rate of compensation increase of 3.50% for pension and non-pension employee future benefits. Changes in these assumptions could affect the determination of pension expense and deferred employee benefits.

Future Tax Assets

We have future tax assets resulting from net operating loss carryforwards and deductible temporary differences which, to the extent utilized, will reduce future taxable income. We assess the realization of these assets as to whether it is more likely than not that all or a portion of the net future tax assets will be utilized. The main factors considered include future earnings potential based on internal forecasts, the carryforward period associated with the future tax assets, the nature of income that can be used to realize the future tax assets, and ongoing audits by Canada Revenue Agency ("CRA"). A change in our assessment of any of these factors could affect the future tax asset and related income tax expense. CRA audits currently are underway for the years 1997 to 2000. These audits include a review of loss carryforwards accumulated by Allstream prior to its acquisition by MTS, as well as the January 7, 1997 transaction that converted MTS from a provincially-owned Crown corporation to a publicly traded share capital corporation.

Useful Lives of Deferred Costs

Deferred costs are amortized on a straight-line basis over our best estimate of the future period of benefit. We amortize our deferred wireless activation costs over the estimated period of benefit, which is normally two years, while alarm installation costs are amortized over ten years. We review these estimates on an annual basis or more frequently if events during the year indicate a change may be required, with consideration given to customer churn, industry standards and other relevant business factors.

Valuation of Accounts Receivable

As we expect that a certain portion of our receivables from customers will not be collected, we maintain an allowance for doubtful accounts. If circumstances related to specific customers change, economic conditions worsen, or actual results differ from our expectations, our estimate of the recoverability of our receivables could be further reduced from the levels provided for in our consolidated financial statements. A change in our estimate would impact bad debt expense and accounts receivable.

Asset Retirement Obligations

When recognizing asset retirement obligations, we are required to make estimates of the probability of retiring assets, the timing and amount of retirement costs, and the discount factor applied to determine fair value. The estimates of probability and the timing and amount of costs are subject to change and are reviewed annually or more frequently if events during the year indicate a change may be required.

Goodwill

We test the valuation of goodwill on an annual basis or earlier when events or changes in circumstances indicate that goodwill might be impaired. A change in estimates could impact the carrying value of goodwill.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

Effective January 1, 2004, we adopted the following changes to our accounting policies:

AAA Alarm Accounting Policy

We changed our accounting policy for deferred alarm installation costs to proportionately match the costs of alarm installation with the installation and monitoring revenues earned from the customer. Previously, we deferred and amortized 100% of alarm installation costs. We will continue to amortize deferred costs over the estimated period of benefit of ten years. We have applied this change in accounting policy retroactively, and have restated prior period balances for comparative purposes.

Asset Retirement Obligations

We adopted the recommendations of the CICA Handbook section 3110, Asset Retirement Obligations. On January 1, 2004, we did not identify any significant asset retirement obligations. With the acquisition of Allstream on June 4, 2004, we assumed asset retirement obligations. We recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This obligation subsequently is adjusted for the passage of time and for any revisions to the timing or amount required to settle the obligation. Upon initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of property, plant and equipment. This cost is amortized on the same basis as the related asset. Changes in the asset retirement obligation due to the passage of time and the amortization of the asset retirement cost are recorded in amortization expense.

Foreign Currency Forward Contracts

We began using foreign currency forward contracts to manage foreign exchange exposure that arises in the normal course of business operations. We apply hedge accounting for foreign currency forward contracts and U.S. dollars that are designated and effective as hedges for foreign currency denominated commitments. Our policy is to formally document the relationship between a hedging instrument and a hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at its inception and throughout the term of the hedge. Gains and losses on forward currency contracts that qualify for hedge accounting are recognized in income in the same period that gains and losses on the underlying hedged transactions are recognized. We do not utilize derivative financial instruments for any speculative purposes.

RISKS AND UNCERTAINTIES

This section describes risks and uncertainties that could affect us.

Changes in Competitive Conditions

Over the last several years, there has been increasing competition in the telecommunications market. In Manitoba, we expect to face continuing strong competition in 2005. We expect the greatest competitive threats to come in large business, long

distance, wireless, and Internet markets. We expect the incumbent cable provider to enter the local residential telephony market in 2005, facilitated by technology based on VoIP. Continuing strong competition is expected from both existing companies and new entrants, including national carriers, cable companies and alternative providers.

We expect our National division to face intense competition in all of its markets for its existing and planned services from, among others, the incumbent local exchange carriers ("ILECs"), cable companies, competitive long distance providers, wireless providers, competitive local exchange carriers, Internet service providers, Centrex resellers and other current and planned telecommunications providers. In each of the business areas currently served by our National division, the principal competitor is the ILEC serving that geographic area. ILECs have long-standing relationships with their customers and have benefited historically from a monopoly over the provision of local switched services. There can be no assurance that our National division will be successful in its attempt to offer services in competition with the services offered by ILECs.

In addition, the federal government currently is reviewing foreign ownership restrictions for telecommunications carriers. The federal government commenced this review in January 2003 to assess whether the current foreign ownership restrictions for telecommunications carriers should be eased. A decision to reduce foreign ownership restrictions could result in increased competition in Canada's telecommunications industry.

Accelerated Pricing Pressure in Legacy Services

A percentage of our current revenue base is represented by "legacy" services, such as long distance, local, frame relay and private line data services. Over the past few years, these revenues have come under heightened competitive pricing pressure, and are at risk of displacement over time from next generation and IP services, which are typically priced much lower than legacy services with comparable bandwidth or functionality. We are mitigating this risk by prudently managing the migration from legacy products; introducing change and innovation in various ways relating to pricing and bundling opportunities; and pursuing new revenue streams from growth and emerging products and services.

Changes in CRTC Regulation

The CRTC governs the telecommunications and broadcast industries in which we operate. In Manitoba, we operate as an ILEC. Our National division operates as a competitive local exchange carrier ("CLEC"). Our National division is the number two competitor for business telecommunications services in every region across Canada. Current regulatory proceedings and policy issues, which could, in the future, have a significant impact on our business, are described below.

Competitive Digital Network Access

In Decision 2002-34, the CRTC determined that certain limited components of digital network access ("DNA") services, in certain limited instances, should be available to competitors from the incumbents at cost-based rates, described as competitor digital network access ("CDNA") service. On August 9, 2002, the CRTC initiated a proceeding to address certain aspects of Decision 2002-34, and to consider an expansion in the scope of the CDNA tariff. On December 23, 2002, the CRTC issued *Interim Competitor Digital Network Access service*, Telecom Decision CRTC 2002-78 ("Decision 2002-78"), which reduced, on an interim basis, the rates charged to entrants, including our National division, for some additional components of DNA service in some circumstances. On August 29, 2003, as a result of disputes concerning the interpretation of Decision 2002-78, the CRTC issued Telecom Decision 2003-60 to clarify the circumstances in which the interim rates will be available. On February 3, 2005, the CRTC issued *Competitor Digital Network Services*, Telecom Decision CRTC 2005-6 ("Decision 2005-6"). Decision 2005-6 is the CRTC's final decision in the proceeding commenced in August 2002. In Decision 2005-6, the CRTC decided to expand the scope of what it classifies as Competitor Digital Network ("CDN") services. The CRTC ordered that certain components of CDN services, known as Category I services, be made available to competitors at cost-based rates, and that certain additional components be made available to competitors at rates that vary between cost-based and retail. As a result of Decision 2005-6, it is expected that regulated costs for our National division will be reduced.

Deferral Account Proceeding

Our ILEC operations in Manitoba currently are subject to price cap regulation as established by the CRTC in Decision 2002-34. This regulation is effective for a four-year period that began on June 1, 2002. It requires certain prices to be adjusted annually by an amount equal to inflation less a productivity factor of 3.5%. To the extent that these amounts and certain other rating elements relate to residential services, they are accumulated in a regulatory deferral account. As at December 31, 2004, we estimated our deferral account commitment to be approximately $16.0 million.

On March 24, 2004, the CRTC invited proposals on the most appropriate way of disposing of the surpluses that have accumulated in the deferral accounts of the ILECs during the first two years of the second price cap period. We have proposed to dispose of the surplus in our deferral account by using the surplus to compensate for revenue loss associated with the deferral of business increases that arose as a result of our 2002 price cap filing and to make up the additional subsidy required in relation to our Band F for 2002 and 2003. We also have made a number of other suggestions regarding the use of the surplus in this account in order to facilitate our ability to continue to offer reliable and affordable high-quality services that are accessible to urban and rural area customers, while also ensuring that the competitive balance is not affected adversely. We also have sought approval to close our deferral account effective January 1, 2005. In contrast, some of the CLECs are seeking access to the monies in the deferral account to fund further reductions to competitors. If granted, such arrangements could provide our National division with improved access to competitive local services outside of Manitoba. A decision from the CRTC with respect to the use of deferral account balances is expected in 2005.

Next Generation Application

On April 15, 2003, Allstream applied to the CRTC to order the ILECs to offer a variety of next generation services and facilities, including Ethernet access services, asymmetric digital subscriber line ("ADSL")/Gateway access service and Wavelength access service, to Allstream and other entrants at cost-based rates.

On January 27, 2004, the CRTC issued *Ethernet services*, Telecom Decision CRTC 2004-5, which established interim rates and conditions for the provision of a number of elements of Ethernet access services. Not wishing to prejudge the outcome of other proceedings, such as the CDNA proceeding, the CRTC only ordered that certain components of this service be tariffed on a retail basis.

On June 2, 2004, the CRTC granted interim approval of a tariff filed by Bell to offer a full Ethernet access service, including carrier interface and transport, on a metropolitan, regional and provincial basis. While this tariff is not priced at cost plus 15% as requested in the application, it provides the lowest pricing for Ethernet service offered by either Bell or TELUS Communications Inc. ("TELUS") to date. During the second quarter of 2004, the CRTC granted interim approval of a similar Ethernet service filed by TELUS. The availability of this service will allow us to extend the reach of certain services in the operating territories of Bell and TELUS. The interim nature of this tariff leaves open the possibility that Ethernet service, or at least certain components of this service, could be made available at cost plus 15% in the CRTC's final decision on this application.

During the fourth quarter of 2004, the CRTC issued an order approving, on an interim basis, a tariff filed by Bell for the provision of ADSL services, such as Gateway access service and high-speed access service. As with the Ethernet tariffs, these ADSL services will provide the lowest pricing to date, and will extend the reach of our National division in Bell's operating territory. This order specifically leaves open the issue of cost-based access to these services, or components of these services, in the future.

VoIP Proceeding

On April 7, 2004, the CRTC initiated a proceeding to review the regulatory framework applicable to VoIP. The CRTC's preliminary view is that, to the extent VoIP services provide access to and/or from the public switched telephone network, these services should be subject to the existing regulatory framework, including the requirement that the ILECs offer such services in accordance with tariffs approved by the CRTC.

In our initial submission in this proceeding, we generally agreed with the CRTC's preliminary views, and noted that the CRTC also must ensure that the interconnection of packet-switched, circuit-switched and combination networks is efficient, and that

the underlying local access and transport facilities that are used to provision retail VoIP services are unbundled and priced at rates that are consistent with the CRTC's costing rules for competitor services. In September 2004, the CRTC conducted a public consultation regarding the regulation of VoIP services. We appeared at the consultation and made submissions in support of our position. A CRTC decision in this proceeding also could include a roadmap for additional pricing flexibility for the ILECs once the cable companies begin to make inroads in the voice market.

High-Cost Serving Areas – Proposed Band "F"

In 2003, we filed an application with the CRTC which proposed that certain high-cost exchanges in Manitoba that are currently in "Band D" be reclassified into a new "Band F". We also requested that a monthly subsidy in the amount of $10.14 per residential network access service in Band F be sourced from the CRTC's national contribution fund. In its decision, the CRTC approved, on an interim basis, a monthly subsidy of $4.05 per residential network access service in Band F. We filed an application to review and vary this decision on the basis that the costs associated with the provision of services in Band F justify a higher subsidy. A decision on this application is expected in 2005.

Price Floor Safeguards

In late 2003, the CRTC initiated a proceeding to examine whether the pricing safeguards imposed on the ILECs with respect to services provided in their traditional operating territories should be strengthened. The CRTC's proposals include modifications to the rules that the ILECs must follow in bundling services, and changes to the imputation test that is used to establish price floors for certain services. The CRTC also has proposed the introduction of a new pricing safeguard for volume and term contracts for retail tariffed services.

In submissions filed in conjunction with Call-Net Enterprises Inc. ("Call-Net"), Allstream called for the imputation of no less than what competitors actually pay for services when establishing the applicable price floor. These submissions also stated that in order to guarantee that competitors will have access to the services necessary to compete with the ILECs at tariffed rates, the CRTC must ensure that ILECs do not offer services on a retail basis unless they also are offered and tariffed on an unbundled basis to competitors. On June 25, 2004, we filed reply arguments in conjunction with Call-Net. This proceeding now is concluded, and a decision is expected in 2005. A favourable decision will enhance the ability of our National division to compete effectively and grow market share.

Market Conditions and Economic Fluctuations

Our future operating results may be affected by changes in the conditions of specific markets for certain products and services and in the overall market for communications, and by conditions in the domestic or global economy generally. A slowdown in the Canadian and global economy could impact our business, including reducing our access to low-cost investment capital. Any decline in economic growth and commercial activity may result in residential and business customers delaying purchases or discontinuing the use of our services.

Collective Agreements

A significant portion of our employees are unionized and are covered by collective agreements. Our unionized employees are represented by the following five unions: the Telecommunications Employees Association of Manitoba ("TEAM"); the International Brotherhood of Electrical Workers ("IBEW"); the Communications, Energy and Paperworkers Union of Canada, Local 7 ("CEP"); the Canadian Auto Workers, Local 2000 ("CAW"); and the United Steelworkers of America, TC Local 1976 ("USWA"). Our collective agreements have expiry dates ranging from November 2004 to December 2007. It is anticipated that our collective agreements that have expired or will expire will be renewed without a labour disruption.

The TEAM collective agreement expires on February 18, 2007. On February 2, 2005, we reached a tentative collective agreement with the IBEW which we expect will be ratified on March 10, 2005. Negotiations with the IBEW with respect to our other collective agreement is in progress. We have three collective agreements with the CEP, one of which expired on November 20, 2004 and is in the process of being renegotiated. The two other collective agreements with CEP expire on December 19, 2007. Our collective agreement with CAW expires on December 31, 2006, and our collective agreement with USWA expires on December 31, 2006.

Rapid Technological Change and Displacement

The telecommunications industry is subject to rapid and significant changes in technology that may reduce the relative effectiveness of existing technology and equipment. Network technology continues to evolve at a pace that may enable new competitors to enter the market with increased flexibility, provide increased choice for customers, and speed the obsolescence of our core technologies. This could result in the displacement of products and services by substitutes, and create a potential for accelerated investment in our network evolution. Technological advancement also results in an increased risk of obsolescence of our property, plant and equipment. Although we believe our network represents the best technology currently available, all aspects of voice, data, and video telecommunications are undergoing rapid technological change.

Allstream Integration

We acquired Allstream with the expectation that the successful completion of this acquisition will result in long-term strategic benefits, economies of scale and synergies. This will depend, in part, on whether the operations of the two companies can continue to be integrated in an efficient and effective manner. It is possible that this may not occur as planned, that restructuring costs arising from the integration may be greater than expected, and that financial benefits may be less than currently anticipated. In addition to management's focus on integration, our operating results and financial condition could be affected adversely by a number of factors, such as geographical, regulatory, labour, and product differences that exist between the two companies. To effectively mitigate the risks associated with integration, we established a Transition Office to coordinate all integration activities and to drive completion of implementation plans. Through this coordinated approach, management continues to focus on ensuring key employees of the combined operations are retained; managing transition issues related to commercial and alliance arrangements; implementing new products; balancing the level of resource commitments required for integration; and participating in regulatory activities that enhance our overall strategic and financial position. Our results to date in relation to our transition activities and realized synergies are consistent with plan.

Change in AT&T Relationship

Effective November 30, 2004, Allstream and AT&T Corp. ("AT&T") extended, until June 30, 2011, the master services agreement (the "MSA") to provide Allstream with continued use of certain AT&T technology and capabilities related to Allstream's toll-free, calling card and customer care platforms. As is typical in commercial agreements, provisions exist for early termination of the MSA. The MSA may be terminated upon the occurrence of certain defined breaches, or upon the acquisition of 20% or more of our equity by a strategic competitor. In determining an accelerated termination date upon such acquisition, AT&T must consider the strategic competitor's network capability to enable the migration of Allstream's network to a successor network. AT&T also may terminate the MSA upon 36 months prior written notice. AT&T has the right to serve Canadian customers directly, including competing with Allstream. We are continuing to develop and/or obtain alternative products and services to replace those products and services supported by AT&T under the MSA.

Competition Bureau Review of Allstream Acquisition

Prior to the closing of our acquisition of Allstream in June 2004, all of the necessary steps required by the Competition Bureau were diligently completed. We advised the Competition Bureau of our intention to close this acquisition, and the Competition Bureau did not express any objection to this closing. The merger provisions of the *Competition Act* (Canada) permit the Competition Bureau to seek relief in respect of merger transactions that are likely to prevent or lessen competition substantially. As these merger provisions permit a merger transaction to be reviewed up to three years after the transaction has been substantially completed, there can be no assurance that a challenge of the acquisition before the Competition Bureau will not be made, or, if such a challenge is made, of the result. We believe that our acquisition of Allstream is beneficial to the competitive landscape of the Canadian telecommunications industry, and that any actions on the part of the Competition Bureau will not have a material adverse effect on the operations of the expanded company.

Allstream/Inukshuk/NR Communications Venture

During the fourth quarter of 2003, Allstream entered into a venture (the "Venture") with Microcell Solutions Inc. (formerly Inukshuk Internet Inc.) ("Microcell"), and NR Communications, LLC ("NR")

to build an MCS network to offer high-speed Internet, IP-based voice and local networking services using broadband wireless access technology. Each party owned a one-third interest in the Venture. Allstream had a period of time to evaluate the technology and its potential commercial acceptance. While the results of the evaluation demonstrated the promise of fixed broadband technology, our current priorities and corporate initiatives indicate that Allstream's future relationship with the Venture is better suited as a strategic supplier of telecommunications services. On January 24, 2005, Microcell and NR purchased equal shares of our ownership interest in the Venture for $8.1 million in cash, which represented our total investment made in the Venture.

In April 2004, Unique Broadband Wireless Services, Inc. ("UBS") filed a statement of claim against Allstream, Inukshuk Internet Inc. ("Inukshuk"), Microcell Telecommunications Inc. and Microcell Solutions Inc. ("Microcell") with the Ontario Superior Court of Justice. This claim, which seeks damages in the amount of $160 million and other relief, alleges, in part, that Allstream induced Inukshuk and Microcell to breach their agreement with UBS relating to the use of certain wireless spectrum and licences, and that it intentionally interfered with the contractual arrangements between these parties. We intend to vigorously defend our position, and we believe that we have a good defence to the claim.

SOCIAL RESPONSIBILITY

We understand and value the important role our company has in communities across Canada and in Manitoba. We are committed to promoting the strength and vibrance of communities across our operating territory. During 2004, we continued to actively support organizations and causes important to all our stakeholders, including employees, shareholders and customers. This also supports strategies to advance the reputation of the MTS and Allstream brands in the marketplace. During 2004, we contributed to a wide range of social, cultural, educational and sports organizations throughout Canada, through direct program funding, in-kind contributions, and the volunteer efforts of our employees.

OUTLOOK

We expect to deliver growth in revenues and profitability in 2005. This requires, first and foremost, leveraging the synergies of Allstream and MTS functioning as a unified organization. Our positive view for 2005 builds on our progress throughout much of 2004 in integrating two separate companies into one organization, stabilizing the revenues of our National division, improving profitability, and continuing with our very profitable management of the Manitoba division.

Our 2005 outlook assumes continuing solid economic performance for Canada as a whole, but also stable conditions for the Manitoba economy where we have higher market exposure relative to other regions. The Canadian economy is forecast to deliver growth in real Gross Domestic Product of 3.0%[1] this year, with the Manitoba economy estimated to grow at 2.8%[1]. Our projections for 2005 are as follows:

2005 FINANCIAL OUTLOOK

Revenues	$2.04 B to $2.08 B
EBITDA	$705 M to $720 M
EPS	$2.95 to $3.05
Cash EPS	$4.80 to $4.90
Capital Expenditures	$325 M
Free Cash Flow	$280 M to $300 M

2005 financial outlook includes gross synergies of approximately $27 million, and excludes transition costs. Transition costs include estimated transition expenses and transition capital.

Growth is expected in service areas such as wireless, Internet, digital television, IT, emerging broadband IP services for enterprises, and wholesale residential telephony services for third parties, which is anticipated to be partly offset by some continuing revenue erosion in traditional long distance voice and data services such as frame relay and services provided by asynchronous transfer mode. In Manitoba, our opportunity remains to profitably grow our share of the "broadband home," including packaged voice, Internet, digital television, and wireless. Across Canada, we have a strong second position in the major urban centres, and there is opportunity to grow share by competing on the unique value propositions of our National division, particularly in delivering integrated next generation IP solutions.

[1] 2005 economic growth rates sourced from the Manitoba Department of Finance, February 15, 2005.

The following is the outlook in select market segments:

Data: The continuing momentum toward connectivity as a competitive business asset and as an attribute of the progressive household will drive data services growth and innovation well into the future. Our portfolio of data services, including the full range of Internet and IT services capabilities, combined with professional consulting, infrastructure management and solutions development, emphasizes our commitment to this strategic segment.

Wireless: Double-digit growth in revenues in the Manitoba wireless business is expected, along with continuing strong gains in the number of customers, and the launch of new services, including a strong focus on new multimedia data segments, which are expected to provide good niche opportunities. Continuing high levels of ARPU and low churn are expected to contribute to another strong year of profitable results.

Local: The local voice services market will become more dynamically competitive in 2005, which is a trend evident across North America. Here, the Canadian cable companies are ramping up strategies to compete for the local customer, realizing that the voice line remains the best connection to the household. Niche VoIP providers are expected to expand their marketing efforts in some segments, including communities of interest and some early adopter markets, although their impact this year is expected to be marginal overall. Our National division is gearing up to compete in local markets via its strategy of providing wholesale capabilities to alternative competitors. In Manitoba, our bundling packages and strong customer service capabilities underscore our fierce competitiveness in defending this market today and for tomorrow.

Long Distance: Across all our long distance markets, we expect a continuing decline in revenues. Pricing pressures will impact this business as a whole. From a market share perspective, we do not expect material erosion in market share, given that our Manitoba division is a nimble incumbent competitor in Manitoba, and our National division is an innovator in Canada. In fact, there is room to grow market share. In addition, growth in international traffic represents a significant potential offset to the revenue impact from price erosion. Although long distance remains strategic and profitable as a standalone revenue line for us, we will increasingly view the capability it provides as a component within bundled household offerings and within the integrated solutions we provide to enterprises.

Digital Television: Strong demand in 2004 for MTS TV is an excellent indicator of what is expected in 2005. MTS TV will leverage our leading market position, brand recognition, customer care capabilities, and network assets of the Manitoba division to move toward our target of approximately 58,000 customers in Winnipeg by year-end, contributing to forecast revenues of $27 million to $29 million. In 2005, we will continue to enhance the attractiveness of our MTS TV offering. We plan to introduce more customized packaging, video-on-demand, as well as more local content for our TV portal that appeals to our Manitoba customer base.

Directory: Always a steady performer, our directory business, led by the Yellow Pages™ brand, should once again show incremental growth. Although competitors have entered the market in recent years, their success continues to be limited. We expect modest growth in 2005.

Transition to Tax: As a result of our acquisition of Allstream on June 4, 2004, we have the benefit of tax loss carryforwards, which enables us to reduce income taxes for a number of years going forward. Through the utilization of these tax loss carryforwards and based on our forecast and expectations, we will not pay cash income tax for the years 2005 to 2008. As well during this period, we will not have to utilize our capital cost allowance ("CCA"). These CCA deductions will be applied to reduce taxable income in 2009 and 2010, thereby extending the time we do not have to pay cash income taxes for another two years. In 2011, we will begin to ramp back up to full taxation.

We have a solid plan in place for transitioning to paying income tax at full statutory rates, which includes anticipated growth in the business through the transition period as well as periodically purchasing our shares for cancellation. This is consistent with the strategy we successfully used to transition to paying full tax following our privatization in 1997.

Transition Outlook: We established a liability upon the acquisition of Allstream for costs related to severance and for consolidating facilities, systems and operations. As we begin 2005, the outstanding amount of this liability is $18.4 million. In addition, we expect to incur capital expenditures related to the transition of $22.0 million, and operating expenses of approximately $10.5 million, largely in 2005.

We will continue to drive hard on integrating our Manitoba division and our National division in 2005. In 2004, we completed work to achieve $15 million in synergies. Through 2005, we will complete the remaining work to achieve our full $40 million in annualized savings. For 2005, we are targeting to realize gross expense synergies of $27 million.

Liquidity and Capital Resources: We will continue to invest in our core operations to ensure success in creating long-term value for our shareholders. Telecommunications is a capital-intensive business, and in 2005, we will focus on efficiently supporting existing high-margin low-growth business and on migrating investment to the evolving high-growth businesses. Our efforts will continue to be handled pragmatically in the context of customer requirements. Our 2005 capital program is sized at approximately $325 million. Capital expenditures at this level translate into a capital intensity ratio of approximately 16%. Going forward, our collective operations are expected to continue to generate strong cash flows. We expect that our internally-generated cash will be sufficient to fund operating and capital expenditures, and the payment of dividends.

Summary: We realize that our goals of profitable growth must be viewed in the context of the Canadian industry in which markets and pricing are experiencing changes that include some re-pricing of traditional services. We always have viewed change as an opportunity to strengthen our position and expand our business, although in 2005, the challenge for us is integrating the considerable changes in our business of the past several years.

To that end, our intent in 2005 is to consolidate and maximize the strengths of our company as a leading national provider: a proven innovator in the broadband IP evolution, but also a proven, successful and profitable operating company. We are confident that we can succeed based on our solid track record over many years of investing for growth with discipline, and maintaining focus on operating efficiencies – all toward the goal of creating and delivering shareholder value.

FINANCIAL STATEMENTS & OTHER RELATED INFORMATION

CONTENTS

REPORT ON MANAGEMENT'S RESPONSIBILITY

Management is responsible for the information contained in the annual filings of Manitoba Telecom Services Inc. The annual filings include the accompanying consolidated financial statements and Management's Discussion and Analysis, along with the Annual Information Form.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and assumptions. The information presented in Management's Discussion and Analysis, and elsewhere in the annual report, as well as in the Annual Information Form, is consistent with the information contained in the consolidated financial statements. For the year ended December 31, 2004, each of the Chief Executive Officer and the Executive Vice-President Finance & Chief Financial Officer have signed and filed the following certifications with respect to the Company's 2004 annual filings.

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Annual and Interim Filings*) of Manitoba Telecom Services Inc. (the issuer) for the period ending December 31, 2004;

2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings; and

3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings.

In fulfilling its responsibilities, management, under the direction of the Chief Executive Officer and the Executive Vice-President Finance & Chief Financial Officer, has developed and maintains a system of internal controls, including systems and processes, policies and procedures, segregation of duties and responsibilities, and an internal audit program. This system is designed to provide reasonable assurance that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and the financial records are reliable for preparing the financial statements and financial information included in Management's Discussion and Analysis and the Annual Information Form.

The Company also maintains an employee *Guide for Business Conduct & Ethics*, which requires employees to follow high ethical business standards, and a *Corporate Disclosure Policy*, which requires the public disclosure of all material information in accordance with securities regulations.

The Board of Directors carries out its responsibility for the consolidated financial statements, Management's Discussion and Analysis, and Annual Information Form principally through its Audit Committee. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements and other annual filings. The Audit Committee has recommended the consolidated financial statements, Management's Discussion and Analysis and Annual Information Form to the Board for approval, and the Board has approved these documents.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.

William C. Fraser, FCA
Chief Executive Officer

Wayne S. Demkey, CA
Executive Vice-President Finance & Chief Financial Officer

AUDIT COMMITTEE REPORT

To the Shareholders
Manitoba Telecom Services Inc.

The Audit Committee, which is comprised of seven independent directors appointed by the Board of Directors, ensures that appropriate due diligence has been directed towards the control, accountability and reporting functions of Manitoba Telecom Services Inc. In fulfilling these responsibilities, the Audit Committee makes assessments and determinations and, where appropriate, makes recommendations to the Board of Directors concerning the following matters:

(a) Annual audited financial statements and financial reporting
(b) Interim financial statements and financial reporting
(c) Distribution of financial information to the public
(d) External audit function
(e) Internal audit function
(f) Internal control environment
(g) Employee pension plan governance and administration
(h) Special studies and review

The Audit Committee has responsibility to monitor and strengthen the independence of the external and internal audit functions by establishing a direct reporting relationship between the auditors and the Audit Committee, providing a forum for communicating with the Board of Directors, and establishing a governance process over the engagement of the external auditors. Maintaining the independent and objective viewpoint of the external auditors is critical to the external financial reporting process. Accordingly, the Audit Committee has established an *Auditor Independence Policy* to ensure that the external auditors remain independent in fact and in appearance. The *Auditor Independence Policy* applies in all cases where the Company intends to engage the external auditors, and requires the pre-approval of all non-audit services to be provided by the external auditors.

The text of the Audit Committee's Charter and a summary of the *Auditor Independence Policy* are disclosed in the Company's Annual Information Form.

During 2004, the Audit Committee met independently with each of management and the external auditors to discuss the audited consolidated financial statements, including the quality of internal controls, accounting principles and significant judgments affecting these audited consolidated financial statements. The Audit Committee has received written disclosure from the external auditors regarding their independence.

The Audit Committee has recommended the audited consolidated financial statements and Management's Discussion and Analysis to the Company's Board of Directors for approval, and the Board has approved these documents.

D H Penny

Donald H. Penny, FCA, LL.D.
Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders
Manitoba Telecom Services Inc.

We have examined the consolidated balance sheets of Manitoba Telecom Services Inc. as at December 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
February 1, 2005

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31 (in millions, except earnings per share)	2004	2003 (Notes 2 and 23)
Operating revenues		
Local services	$ 462.6	$ 347.5
Data services	452.6	142.4
Long distance services	336.7	134.0
Wireless services	181.9	160.9
Other	91.1	73.7
	1,524.9	858.5
Operating expenses		
Operations	921.1	410.6
Restructuring and integration costs (Note 4)	5.5	5.1
Amortization	280.1	224.5
	1,206.7	640.2
Operating income	318.2	218.3
Gain on sale of investment in Bell West (Note 21)	232.6	–
Equity losses (Note 21)	(2.5)	(29.8)
Goodwill revaluation (Note 9)	–	(2.0)
Other (expense) income (Notes 7 and 22)	(74.2)	3.9
Debt charges	(47.8)	(33.2)
Income before income taxes	426.3	157.2
Income taxes (Note 5)		
Current	51.5	75.0
Future	69.7	(3.4)
	121.2	71.6
Net income for the year	$ 305.1	$ 85.6
Basic earnings per share (Note 15)	$ 4.31	$ 1.36
Diluted earnings per share (Note 15)	$ 4.27	$ 1.35

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31 (in millions)	2004	2003 (Note 2)
Retained earnings, beginning of year		
As previously reported	$ 299.8	$ 296.0
Adjustment for change in accounting policy (Note 2)	(1.2)	(1.0)
As restated	298.6	295.0
Net income for the year	305.1	85.6
Dividends	(119.0)	(59.1)
Purchase of outstanding Common Shares (Note 15)	(425.7)	(22.9)
Retained earnings, end of year	$ 59.0	$ 298.6

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 (in millions)	2004	2003 (Note 2)
Cash flows from operating activities		
Net income	$ 305.1	$ 85.6
Add (deduct) items not affecting cash		
Amortization	280.1	224.5
Future income taxes (Note 5)	69.7	(3.4)
Gain on sale of investment in Bell West (Note 21)	(232.6)	–
Equity losses (Note 21)	2.5	29.8
Provision against long-term investment (Note 7)	7.0	–
Deferred wireless costs	(28.4)	(18.5)
Pension funding and net pension credit	(64.6)	(15.4)
Other, net	(3.8)	0.1
Increase in taxes payable on Bell West gain	38.0	–
Changes in non-cash working capital	(10.5)	22.0
Cash flows from operating activities	362.5	324.7
Cash flows from investing activities		
Capital expenditures, net	(278.3)	(208.1)
Increase in investment in Bell West	(8.0)	(80.0)
Acquisition of Allstream, net of cash acquired (Note 3)	(226.4)	–
Other acquisitions (Note 3)	(1.0)	(1.6)
Proceeds on sale of investment in Bell West (Note 21)	645.0	–
Other, net	(5.5)	1.7
Cash flows from (used in) investing activities	125.8	(288.0)
Cash flows from financing activities		
Dividends	(90.8)	(59.1)
Issuance of long-term debt	570.0	–
Repayment of long-term debt	(75.0)	–
(Repayment) issuance of notes payable, net	(68.0)	57.0
Purchase of outstanding shares (Note 15)	(800.8)	(30.8)
Issuance of share capital (Note 15)	15.4	1.9
Other, net	(3.1)	(0.5)
Cash flows used in financing activities	(452.3)	(31.5)
Increase in cash and cash equivalents	36.0	5.2
Bank indebtedness, beginning of year	(4.4)	(9.6)
Cash and cash equivalents (bank indebtedness), end of year	$ 31.6	$ (4.4)

CONSOLIDATED BALANCE SHEET

December 31 (in millions)	2004	2003 (Notes 2 and 23)
Assets		
Current assets		
Cash and cash equivalents	$ 31.6	$ –
Accounts receivable	212.7	82.7
Prepaid expenses	34.6	16.5
Future income taxes (Note 5)	126.3	10.4
Investment (Notes 7 and 21)	–	404.6
	405.2	514.2
Property, plant and equipment (Note 6)	1,448.1	1,065.0
Investments (Note 7)	12.9	15.1
Other assets (Note 8)	140.7	54.7
Future income taxes (Note 5)	869.8	3.3
Goodwill and other intangible assets (Note 9)	87.4	30.7
	$ 2,964.1	$ 1,683.0
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	$ –	$ 4.4
Accounts payable and accrued liabilities	412.6	187.5
Advance billings and payments	50.0	26.1
Notes payable (Note 10)	–	68.0
Current portion of long-term debt (Note 11)	60.1	75.0
Current portion of capital lease obligations (Note 12)	2.1	0.5
	524.8	361.5
Long-term debt (Note 11)	896.2	386.3
Long-term portion of capital lease obligations (Note 12)	19.9	0.7
Deferred employee benefits	83.7	26.2
Other long-term liabilities (Note 13)	49.4	–
Future income taxes (Note 5)	5.5	20.8
	1,579.5	795.5
Shareholders' equity		
Share capital (Note 15)	1,309.5	585.5
Contributed surplus (Note 16)	16.1	3.4
Retained earnings	59.0	298.6
	1,384.6	887.5
	$ 2,964.1	$ 1,683.0

Approved on behalf of the Board

Thomas E. Stefanson, FCA Chairman

Donald H. Penny, FCA, LL.D. Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

1. Summary of significant accounting policies

The consolidated financial statements of Manitoba Telecom Services Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which include Allstream Inc. ("Allstream"), Allstream Limited, MTS Allstream Inc., Allstream Fiber U.S., Inc., Allstream Fiber Washington, Inc., Allstream America Inc., Allstream IT Services, Inc., MTS Communications Inc., MTS Media Inc., Allstream Corp., Allstream ITS Inc., and AAA Alarm Systems Ltd.

Effective June 4, 2004, the Company acquired 100% of the issued and outstanding shares of Allstream. This acquisition was accounted for using the purchase method (Note 3). The Company's consolidated financial statements include the assets and liabilities of Allstream as at December 31, 2004, and the results of operations from the date of acquisition.

Use of accounting estimates
The preparation of the consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition
Revenues from local, data and digital television services are recognized in the period the services are provided. Data services include data connectivity, Internet and information technology ("IT") services. Revenues from long distance and wireless airtime are recognized based on usage in the period the services are provided. Revenues from telecommunications and IT services-related product sales are recognized once the product is delivered to and available for use by the customer in accordance with contractual arrangements. Revenues from telecommunications and IT services-related maintenance services are deferred and recognized over the period of the customer contract. Directory revenues are recognized during the period the directory is in circulation.

Advance payments received from customers are deferred and recognized in the period that services are provided.

Estimated sales rebates are recognized in the same period as the related revenues.

Services and products may be sold together as multiple element arrangements. When the components of these multiple element arrangements have stand-alone value to the customer, they are recognized separately based on relative fair values.

Cash and cash equivalents (bank indebtedness)
Cash and cash equivalents (bank indebtedness) include cash on hand, net of bank overdrafts, and money market instruments, which are readily convertible into known amounts of cash.

Property, plant and equipment
Property, plant and equipment is recorded at original cost, including materials, direct labour and certain overhead costs associated with construction activity and an allowance for the cost of funds during construction. Amortization is calculated on a straight-line basis over the estimated useful life of property, plant and equipment. For a significant portion of the Company's property, plant and equipment, amortization rates are determined based on a continuing program of engineering studies. The composite amortization rate for the year ended December 31, 2004 was 8.9% (2003 – 7.8%).

The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful life
Network equipment and outside plant	4 to 45 years
General equipment and other	3 to 20 years
Buildings	10 to 40 years
Equipment under capital lease	3 to 20 years

Asset retirement obligations
Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants' ("CICA") Handbook section 3110, Asset Retirement Obligations. Upon adoption of these recommendations, the Company did not identify any significant asset retirement obligations. Upon the acquisition of Allstream (Note 3), the Company assumed asset retirement obligations. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This obligation is subsequently adjusted for the passage of time and for any revisions to the timing or amount required to settle the obligation. Upon initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of property, plant and equipment. This cost is amortized on the same basis as the related asset. Changes in the asset retirement obligation due to the passage of time and the amortization of the asset retirement cost are recorded in amortization expense.

Investments
The Company uses the equity method to account for its investment in companies subject to significant influence and the cost method for all other investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

1. Summary of significant accounting policies (continued)

Deferred costs

Deferred costs include wireless activation costs and alarm installation costs that are amortized on a straight-line basis over the estimated periods of benefit, which are normally two years for wireless activation costs, and ten years for alarm installation costs. Deferred costs also include costs associated with the issuance of long-term debt, which are amortized over the term of the issue.

Goodwill and other intangible assets

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net tangible assets and intangible assets purchased at the dates of acquisition. The Company has assigned each of its unamortized goodwill balances to a reporting unit and tests goodwill for impairment on an annual basis, or more frequently if impairment indicators arise. Any impairment in the value of goodwill is charged to income in the period such review is performed.

Other intangible assets include limited life intangible assets and an indefinite life intangible asset. The limited life intangible assets represent customer contracts and relationships, and other contractual arrangements, which are being amortized on a straight-line basis over the estimated periods of benefit of seven to ten years. The indefinite life intangible asset represents a trade name and is not being amortized. The carrying value of the trade name is tested for impairment on an annual basis, or when events occur which indicate that the carrying value may not be recoverable.

Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars at rates of exchange on the following bases:

i. monetary assets and liabilities at rates in effect on the date of the balance sheet;
ii. non-monetary assets and liabilities at the historical exchange rates; and
iii. revenues and expenses at rates prevailing at the respective transaction dates.

Foreign exchange hedging

Effective January 1, 2004, the Company began purchasing foreign currency forward contracts in U.S. dollars to manage foreign currency exchange exposure, which arises in the normal course of business operations. The Company applies hedge accounting for foreign currency forward contracts and U.S. dollars that are designated and effective as hedges of foreign currency denominated commitments. The Company's policy is to formally document the relationship between a hedging instrument and a hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at its inception and throughout the term of the hedge. Gains and losses on foreign currency forward contracts and U.S. dollars that qualify for hedge accounting are recognized in income in the same period that gains and losses on the underlying hedged transactions are recognized. The Company does not utilize derivative financial instruments for speculative purposes. As at December 31, 2004, the Company has no outstanding foreign currency forward contracts.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes reflect the estimated income taxes payable for the current year. Future income tax assets and liabilities are measured using substantively enacted tax rates and are based on:

i. the differences between the tax basis of an asset or liability and its carrying amount for accounting purposes; and
ii. the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Stock-based compensation

The Company uses the fair value method to account for stock options granted to employees after January 1, 2002. Under the fair value method, the Company recognizes estimated compensation expense related to stock options over the vesting period of the options granted, with the related credit being charged to contributed surplus. Upon exercise of these stock options, amounts previously credited to contributed surplus are reversed and credited to share capital.

Employee future benefits

Pension and other employee future benefit costs are determined using the projected benefit method prorated on years of service and based on best estimate assumptions. The discount rate used to calculate the accrued benefit obligation is determined by reference to market interest rates of high quality corporate bonds at the measurement date. The expected return on plan assets is based on a market-related value of pension fund assets. Market-related values of pension fund assets are calculated using a four-year moving average of year-end market values. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the expected average remaining service life of active employees, except for the post-retirement medical and dental benefits programs where the average remaining life expectancy of former employees is used in the determination of the amortization period. Where applicable, past service costs for defined benefit plans are amortized on a straight-line basis over the remaining service period of participating employees expected to receive benefits. Transitional assets and obligations, arising upon implementation of the recommendations in CICA Handbook section 3461, Employee Future Benefits, are amortized on a straight-line basis over the expected average remaining service life of active employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

2. Change in accounting policy

Deferred alarm installation costs

Effective January 1, 2004, the Company changed its accounting policy for deferred alarm installation costs, as required by Canadian GAAP and to proportionately match alarm installation costs with installation and monitoring revenues earned from customers. The Company has applied this change in accounting policy retroactively and has restated prior periods. As a result, retained earnings as at January 1, 2003 decreased by $1.0 million. As at December 31, 2003, other assets decreased by $1.9 million, the long-term future income tax liability decreased by $0.7 million, and retained earnings decreased by $1.2 million. The result of this change on 2003 comparative figures is an increase in operations expense of $0.5 million, a decrease in amortization expense of $0.2 million, and a decrease in future income tax expense of $0.1 million.

3. Acquisitions

Acquisition of Allstream

Effective June 4, 2004, the Company acquired 100% of the issued and outstanding Class A voting shares ("Class A Shares") and Class B limited voting shares ("Class B Shares") of Allstream, a provider of telecommunications services. Allstream shareholders received, for each of their Class A Shares and Class B Shares of Allstream, $23.00 in cash and 1.0909 of either Common Shares of the Company in the case of shareholders who were qualifying Canadian residents, or convertible non-voting Class B Preference Shares of the Company in the case of shareholders who were non-Canadian residents or non-qualifying Canadian residents. The aggregate purchase price consisted of the following:

	Purchase consideration
Cash	475.1
4,817,799 Common Shares (Note 15)	234.0
17,716,734 Class B Preference Shares (Note 15)	860.5
Transaction costs, net of income taxes	9.2
Total purchase consideration	1,578.8

The values of the Common Shares and Class B Preference Shares issued by the Company were determined based on the weighted average trading price of the Common Shares of the Company on The Toronto Stock Exchange for the period beginning two days before and ending two days after the announcement of the acquisition.

Details of the fair value of assets and liabilities acquired are as follows:

	Purchase consideration
Fair value of assets acquired:	
Cash and cash equivalents	257.9
Accounts receivable	152.6
Prepaid expenses	23.0
Future income taxes – current	96.0
Property, plant and equipment	683.4
Investments	2.4
Other assets	21.1
Future income taxes – long-term	839.6
Intangible assets	99.6
	2,175.6
Less liabilities assumed:	
Accounts payable and accrued liabilities	181.5
Advance billings and payments	24.8
Capital lease obligations	23.6
Deferred employee benefits	75.3
Other long-term liabilities	55.7
	360.9
Fair value of net assets acquired	1,814.7
Excess of amounts initially assigned to net assets over the purchase price	(235.9)
Total purchase consideration	1,578.8

During the fourth quarter of 2004, the Company finalized its accounting for the Allstream acquisition. As a result, the preliminary purchase consideration increased by $0.5 million, and the preliminary allocation to the fair value of net assets acquired increased by $29.3 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

3. Acquisitions (continued)

The excess of amounts assigned to net assets over the purchase price ("negative goodwill") in the amount of $235.9 million has been allocated as a pro rata reduction to property, plant and equipment of $325.5 million, intangible assets of $41.2 million, along with the related impact on future income tax assets of $130.8 million.

Intangible assets acquired represent customer contracts and relationships in the amount of $88.6 million and a trade name in the amount of $11.0 million. As a result of the pro rata allocation of negative goodwill, the fair value of customer contracts and relationships is reduced to $52.0 million, and the fair value of the trade name is reduced to $6.4 million. Customer contracts and relationships are being amortized over their estimated period of future benefit of seven years. The trade name has an indefinite life, and accordingly, is not being amortized.

Liabilities include an accrual for estimated costs of $28.0 million expected to be incurred as a result of the restructuring and integration of the operations of Allstream. This accrual represents severance and other employee-related costs, as well as costs to consolidate facilities, systems and operations (Note 4).

Other acquisitions

During the year, the Company acquired all of the operating assets of Scott Security Systems (Calgary) Ltd. (July 1, 2004) and Compuscan Protection (2001) Inc. (December 20, 2004), both providers of alarm monitoring services. Total cash consideration for the acquisitions was $1.7 million, of which $1.0 million has been paid and $0.7 million is due in 2005. These acquisitions were accounted for using the purchase method, and the purchase price was allocated to accounts receivable of $0.1 million, intangible assets of $1.7 million, and current liabilities of $0.1 million. Intangible assets represent customer contracts and relationships and are being amortized over the estimated period of future benefit of ten years. The operating results of these businesses are included in the Company's consolidated operating results from the effective dates of acquisition.

4. Restructuring and integration costs

2004

With the acquisition of Allstream on June 4, 2004, the Company has plans to restructure and integrate certain network, information technology, finance and administrative functions of Allstream. It is expected that these key restructuring and integration activities giving rise to costs will be substantially completed in 2005. As a result of this restructuring and integration, the Company expects to incur severance and other employee-related costs, as well as costs to consolidate facilities, systems and operations.

These restructuring and integration costs include an estimated $28.0 million related to the acquired company, which were recognized as a liability as part of the purchase consideration allocation (Note 3). As at December 31, 2004, total costs charged against this liability were $9.6 million, leaving an outstanding liability of $18.4 million.

Following the acquisition of Allstream, in association with the overall integration plan, the Company initiated activities to restructure certain network, information technology and administrative functions of the acquiring Company. Total estimated restructuring and integration costs associated with these activities are $16.0 million, which will be recognized as expenses when these activities occur. Approximately one-fifth of these costs are for severance and other employee-related costs, and the remainder is for other associated costs. On a segmented basis, approximately $9.0 million relates to the MTS (Manitoba) division, $6.0 million relates to the Allstream (National) division and $1.0 million relates to the Company's other segment. For the year ended December 31, 2004, the Company has incurred pre-tax restructuring and integration expenses in the amount of $5.5 million, of which $4.0 million relates to the MTS (Manitoba) division, $0.9 million relates to the Allstream (National) division and $0.6 million relates to the Company's other segment. The remainder of the restructuring and integration costs will be incurred during 2005.

2003

In the fourth quarter of 2003, the Company recorded a pre-tax restructuring charge in the amount of $5.1 million. The restructuring charges represent severance and other employee-related costs, resulting from decisions to streamline operations. As at December 31, 2004, this restructuring was substantially completed.

5. Income taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2004	2003
Combined basic federal and provincial statutory income tax rate	37.6%	40.1%
Bell West gain and equity losses subject to capital gains rates	(10.0)	3.8
Other items	0.8	1.6
	28.4%	45.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

5. Income taxes (continued)

The balances of future income taxes as at December 31, 2004 and 2003 represent the future benefit of unused tax losses, and temporary differences between the tax and accounting bases of assets and liabilities. The major items giving rise to future income tax assets and liabilities are presented below:

	2004	2003
Non-capital loss carryforwards	976.7	5.0
Property, plant and equipment	157.6	2.4
Other	15.8	(14.5)
Total future income tax asset (liability)	1,150.1	(7.1)
Valuation allowance	(159.5)	–
Net future income tax asset (liability)	990.6	(7.1)

Future income taxes are comprised of:

	2004	2003
Current future income tax asset	126.3	10.4
Long-term future income tax asset	869.8	3.3
Long-term future income tax liability	(5.5)	(20.8)
Net future income tax asset (liability)	990.6	(7.1)

During 2004, the Company paid income taxes of $23.9 million (2003 - $74.2 million).

As at December 31, 2004, the Company had non-capital loss carryforwards available to reduce future years' taxable income, which expire as follows:

2006	315.5
2007	499.4
2008	234.3
2009	1,639.2
2010 and beyond	10.2
	2,698.6

6. Property, plant and equipment

	2004		2003	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Network equipment and outside plant	2,555.4	1,499.0	2,108.4	1,362.6
General equipment and other	410.1	236.4	402.6	231.2
Buildings	214.4	102.8	171.3	100.4
Equipment under capital lease	3.6	1.3	1.5	1.0
Plant under construction	76.4	–	60.0	–
Materials and supplies	20.6	–	10.1	–
Land	7.1	–	6.3	–
	3,287.6	1,839.5	2,760.2	1,695.2
Net book value	1,448.1		1,065.0	

7. Investments

	2004	2003
Long-term investment, at cost	3.6	10.8
Long-term disability fund, at cost	3.9	4.3
Long-term investment, at equity	5.4	–
Investment in Bell West, at equity	–	404.6
	12.9	419.7
Less: investment carried as current	–	(404.6)
	12.9	15.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

7. Investments (continued)

During 2004, the Company recorded a provision of $7.0 million against the carrying value of its long-term investment, at cost.

The market value of the long-term disability fund is $6.0 million as at December 31, 2004 (2003 – $5.9 million).

8. Other assets

	2004	2003
Pension asset	73.4	25.3
Deferred wireless activation costs	27.1	18.6
Restricted cash	16.2	–
Prepaid rights-of-way	9.8	–
Deferred alarm installation costs	6.3	5.7
Other deferred costs	7.9	5.1
	140.7	54.7

The carrying value of deferred costs is presented net of accumulated amortization. Total amortization of deferred costs charged to operations amounts to $21.5 million in 2004 (2003 – $20.2 million).

Restricted cash includes $14.1 million held in trust as further protection for the former directors and officers of the predecessor company to Allstream, relating to their potential personal liability arising out of their actions as directors or officers. The restrictions on this cash will terminate upon the earlier of (i) December 31, 2008, if there have been no claims, and (ii) three years from the date of conclusive resolution of all related claims. Restricted cash also includes $2.1 million, which represents cash segregated as collateral against certain outstanding letters of credit of the same amount. This cash remains restricted until the letters of credit are cancelled or expire.

The pension asset represents the recognized portion of the net transitional pension asset and employer pension contributions, net of pension expense.

9. Goodwill and other intangible assets

	2004	2003
Goodwill	28.2	28.2
Other intangible assets	59.2	2.5
	87.4	30.7

Other intangible assets consist of customer contracts and relationships of $52.7 million (2003 – $2.5 million) and trade name of $6.5 million (2003 – nil). As at December 31, 2004, other intangible assets were recorded at a cost of $65.5 million (2003 – $3.6 million) less accumulated amortization of $6.3 million (2003 – $1.1 million). Total amortization of other intangible assets charged to operations amounts to $5.1 million in 2004 (2003 – $0.4 million).

In 2003, due to softer market conditions for IT services, the Company recorded a $2.0 million goodwill revaluation charge to reduce the carrying value of goodwill to the estimated fair value based on annual valuation testing.

10. Notes payable

The Company has credit facilities available in the amount of $200.0 million, which consist of $150.0 million supporting the Company's commercial paper program, and a $50.0 million committed operating line of credit for cash management purposes and the issuance of letters of credit. The Company utilized its commercial paper program during 2004, and paid interest on notes outstanding of $1.1 million (2003 – $1.6 million). As at December 31, 2004, the Company had $13.4 million in undrawn letters of credit outstanding against its operating line of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

11. Long-term debt

	2004	2003
Medium Term Note, 4.20%, due September 27, 2004	–	75.0
Medium Term Note, 7.75%, due March 1, 2005	9.7	9.7
Medium Term Note, 8.75%, due May 15, 2005	34.9	34.9
Medium Term Note, 7.75%, due September 30, 2005	15.5	15.5
Medium Term Note, 8.00%, due April 17, 2006	48.1	48.1
Medium Term Note, 9.00%, due May 2, 2007	14.6	14.6
Medium Term Note, 6.50%, due July 2, 2007	80.0	80.0
Medium Term Note, 8.50%, due September 29, 2007	11.9	11.9
Medium Term Note, 9.125%, due April 3, 2008	27.7	27.7
Medium Term Note, 5.90%, due June 2, 2008	62.0	62.0
Medium Term Note, 5.85%, due February 23, 2009	70.0	70.0
Medium Term Note, 5.25%, due June 10, 2009	150.0	–
Medium Term Note, 8.625%, due September 8, 2010	11.9	11.9
Medium Term Note, 5.20%, due September 27, 2011	220.0	–
Medium Term Note, 6.15%, due June 10, 2014	200.0	–
	956.3	461.3
Less: current portion of long-term debt	(60.1)	(75.0)
	896.2	386.3

Interest expense on long-term debt, including amortization of debt issue costs, amounts to $44.7 million in 2004 (2003 – $31.1 million). During 2004, the Company paid interest on long-term debt of $40.9 million (2003 – $30.8 million).

12. Capital lease obligations

The Company's future minimum lease payments under capital leases as at December 31, 2004 are summarized in the following table:

2005	2.1
2006	2.1
2007	2.1
2008	2.2
2009	2.2
2010 and thereafter	18.8
Total minimum lease payments	29.5
Less: imputed interest at rates varying from 4.78% to 10.58%	(7.5)
Balance of the obligations	22.0
Less: current portion of capital lease obligations	(2.1)
	19.9

Interest expense on capital leases totaled $0.9 million for the year.

13. Other long-term liabilities

	2004	2003
Rights-of-way and network access contracts	17.1	–
Deferred revenue	11.8	–
Asset retirement obligations – long-term portion	7.4	–
Restructuring and integration provision (Note 4)	5.8	–
Other	7.3	–
	49.4	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

13. Other long-term liabilities (continued)

Upon the acquisition of Allstream, the Company assumed asset retirement obligations in the amount of $9.8 million. The short-term component of asset retirement obligations is recorded in accounts payable and accrued liabilities, and the long-term component is recorded in other long-term liabilities. These asset retirement obligations arise from legal obligations that exist for the removal of equipment or the restoration of premises upon the termination of certain agreements. The asset retirement obligations are associated with underground and above ground cable, microwave towers and related buildings or structural accesses, and leased facilities. The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $13.2 million. A credit adjusted interest rate ranging from 5.35% to 5.93% was used to calculate the present value of the asset retirement obligations, over periods ranging from one month to 47 years. Since June 4, 2004, the Company has recorded accretion expense of $0.3 million, incurred additional obligations of $0.9 million, and has settled existing obligations of $1.7 million, resulting in a remaining asset retirement obligation as at December 31, 2004 of $9.3 million, of which $7.4 million is long-term.

14. Financial instruments

Fair value

The Company's financial assets and liabilities are initially recorded at the related transaction amount, which is normally the historical cost. When the carrying value of a financial asset exceeds its fair value on a basis that is other than temporary, the carrying value is reduced to the fair value. With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value. The Company's long-term debt, with a cost of $956.3 million (2003 – $461.3 million), has a fair market value of $1,013.3 million as at December 31, 2004 (2003 – $505.5 million).

Credit risk

The Company is exposed to credit risk from its customers. This risk is minimized by the Company's large and diverse customer base.

15. Share capital

Authorized

Unlimited number of Preference Shares of two classes
Unlimited number of Common Shares of a single class

Preference Shares

The two classes of Preference Shares are issuable in one or more series, for which the Board of Directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. One class of Preference Shares of a single series has been designated as Class A Preference Shares. Another class of Preference Shares of a single series has been designated as Class B Preference Shares.

Class A Preference Shares

The rights, privileges, restrictions and conditions of the Class A Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class A Preference Shares are not entitled to vote at meetings of shareholders on resolutions electing Directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.

Class B Preference Shares

The rights, privileges, restrictions and conditions of the Class B Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class B Preference Shares are not entitled to vote at meetings of shareholders, and are not entitled to share in the distribution of the assets of the Company upon a liquidation, winding-up or dissolution.
- The Class B Preference Shares are convertible into Common Shares on a one-for-one basis at the option of the holder at any time subject to foreign ownership restrictions, or upon the occurrence of certain events, or at the option of the Company at any time.

Dividends on each class of Preference Shares are payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Preference Share equal to the corresponding amount of dividends per Common Share.

Both classes of Preference Shares participate in the earnings of the Company on an equal basis with the Common Shares and, therefore, are included in the weighted average number of shares outstanding for purposes of calculating basic and diluted earnings per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

15. Share capital (continued)

Common Shares
The holders of the Common Shares have the right to receive notice of, and attend and vote at, meetings of shareholders, to receive such dividends as may be declared by the Board of Directors of the Company, and to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in priority thereto.

Issued	2004		2003	
	Number	Value	Number	Value
Class A Preference Shares				
Opening balance	1,379,556	33.0	1,379,556	33.0
Conversion to Common Shares	(1,379,556)	(33.0)	–	–
	–	–	1,379,556	33.0
Class B Preference Shares				
Opening balance	–	–	–	–
Issued upon acquisition of Allstream, net of share issue costs	17,716,734	860.4	–	–
Conversion to Common Shares	(15,749,959)	(764.9)	–	–
Purchased for cancellation	(1,966,775)	(95.5)	–	–
	–	–	–	–
Common Shares				
Opening balance	61,520,053	552.5	62,312,429	558.4
Issued upon acquisition of Allstream, net of share issue costs	4,817,799	233.8	–	–
Conversion of Class A Preference Shares	1,379,556	33.0	–	–
Conversion of Class B Preference Shares	15,749,959	764.9	–	–
Issued pursuant to stock options	740,620	15.8	88,960	2.0
Purchased for cancellation	(16,637,870)	(290.5)	(881,336)	(7.9)
	67,570,117	1,309.5	61,520,053	552.5
Total share capital		1,309.5		585.5

During 2004, the Company purchased 1,966,775 Class B Preference Shares for cancellation for cash consideration of $84.6 million pursuant to its substantial issuer bid. The excess of the stated capital over the purchase price in the amount of $10.9 million was credited to contributed surplus. During 2004, the Company purchased 16,637,870 Common Shares for cancellation for cash consideration of $716.2 million pursuant to its substantial issuer bid. The excess of the purchase price over the stated capital in the amount of $425.7 million was charged to retained earnings.

During 2003, the Company purchased 881,336 Common Shares for cancellation for cash consideration of $30.8 million pursuant to its normal course issuer bids. The excess of the purchase price over the stated capital in the amount of $22.9 million was charged to retained earnings.

Earnings per share reconciliation
The following table provides a reconciliation of the information used to calculate basic and diluted earnings per share:

	2004	2003
Net income		
Net income – basic and diluted	305.1	85.6
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic	70.8	63.0
Dilutive effect of outstanding stock options	0.6	0.4
Weighted average number of shares outstanding – diluted	71.4	63.4
Earnings per share		
Basic earnings per share ($)	4.31	1.36
Diluted earnings per share ($)	4.27	1.35

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

16. Contributed surplus

	2004	2003
Contributed surplus, beginning of year	3.4	1.3
Stock option expense	2.2	2.2
Exercise of stock options	(0.4)	(0.1)
Purchase of outstanding Class B Preference Shares (Note 15)	10.9	–
Contributed surplus, end of year	16.1	3.4

17. Stock-based compensation

Employee share ownership plan

The Company has an employee share ownership plan under which eligible employees can purchase Common Shares of the Company. Eligible employees may contribute between 1% and 6% of salary, with the Company contributing an amount equal to 25% of employee contributions. The Company records its contributions as a component of operating expenses. During 2004, the Company contributed $1.6 million (2003 – $1.2 million) to this plan. During the year, all Common Shares purchased on behalf of employees under this plan were purchased at fair market value.

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to purchase Common Shares to employees and Directors at a price not less than the weighted average of the prices at which the Common Shares traded on The Toronto Stock Exchange for the five days immediately preceding the date of grant of the option. The options are exercisable during a period not to exceed ten years. The right to exercise the options accrues over a period of five years of continuous employment at a rate of 20% per year effective on the anniversary of the date on which the options were granted. The Company has reserved a maximum of 3.5 million Common Shares to meet rights outstanding under the stock option plan.

The following tables provide further information on outstanding stock options:

	2004		2003	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	1,983,120	$ 28.07	1,751,250	$ 26.16
Granted	456,700	45.61	394,400	34.81
Exercised	(740,620)	20.90	(88,960)	21.33
Terminated	–	–	(73,570)	26.84
Outstanding, end of year	1,699,200	35.94	1,983,120	28.07
Exercisable, end of year	503,700	29.35	951,188	21.85

Year granted	Options outstanding	Options exercisable	Weighted average exercise price per share	Expiry date
2004	456,700	–	$ 45.61	2014
2003	366,120	61,800	34.81	2013
2002	387,300	123,300	34.00	2012
2001	239,340	111,660	37.60	2011
2000	134,000	91,200	26.31	2010
1999	29,240	29,240	18.08	2009
1997	86,500	86,500	14.63	2007

In estimating compensation expense for stock options granted to employees, the Company uses the Black-Scholes option pricing model. The weighted average assumptions used and weighted average grant date fair value are as follows:

	2004	2003
Risk-free interest rate	4.6%	4.6%
Expected volatility	21.8%	23.6%
Expected dividend yield	5.7%	2.6%
Expected life (years)	6	6
Weighted average grant date fair value	$ 6.07	$ 8.10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

18. Employee future benefits

The Company and its subsidiaries provide pension, supplemental pension arrangements and other non-pension employee future benefits to its employees. With the acquisition of Allstream, the Company now has two contributory and one non-contributory defined benefit best average pension plans, which cover most of the employees of the Company and its subsidiaries. These plans provide pensions based on length of service and best average earnings. Two of the defined benefit plans have provisions for periodic cost of living adjustments to benefit payments for certain members based on a percentage of the increase in the Consumer Price Index. The Company's policy is to fund the plans as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. The Company also has a defined contribution pension plan that covers certain employees of the Company. This plan requires the Company to contribute on behalf of each member an amount equal to 2.5% of the member's earnings. The Company also provides supplemental pension arrangements and other non-pension employee future benefits, including life, medical and dental insurance, which are unfunded. The Company has a long-term disability plan for certain employees for which the Company has dedicated assets set aside to fund benefits. These assets are recorded on the Company's financial statements.

The Company measures its accrued benefit obligations and the fair value of plan assets as at December 31 each year. The most recent actuarial valuation of the pension plans for funding purposes was as at January 1, 2004. The next funding valuations are required to be completed as at January 1, 2005. Future funding requirements will depend on the results of annual actuarial funding valuations which are affected by various factors such as actuarial experience of the plans, return on plan assets and interest rate fluctuations.

Defined benefit plans

The components of the Company's net benefit expense (credit) for its defined benefit pension plans and other non-pension employee future benefit plans are as follows:

	Pension benefits		Other benefits	
	2004	2003	**2004**	2003
Current service cost	17.1	13.7	1.3	1.1
Interest on accrued benefit obligation	83.4	63.0	1.2	0.8
Actual return on plan assets	(110.3)	(105.9)	(0.3)	(0.4)
Actuarial losses on accrued benefit obligation	55.9	41.9	0.2	0.4
Difference between expected return and actual return on plan assets for the year	16.0	34.3	(0.1)	–
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for the year	(52.1)	(41.9)	(0.2)	(0.4)
Amortization of past service costs	0.1	–	–	–
Amortization of transitional asset	(10.9)	(10.9)	(0.1)	(0.1)
Benefit expense (credit)	(0.8)	(5.8)	2.0	1.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

18. Employee future benefits (continued)

The components of the Company's accrued benefit asset (liability) for its defined benefit pension plans and other non-pension employee future benefit plans, in total, are as follows:

	Pension benefits		Other benefits	
	2004	2003	2004	2003
Accrued benefit obligation, beginning of year	981.0	900.0	12.2	11.3
Increase in accrued benefit obligation from acquisition	558.0	–	11.7	–
Current service cost	17.1	13.7	1.3	1.1
Employee contributions	11.5	9.7	–	–
Interest on accrued benefit obligation	83.4	63.0	1.2	0.8
Actuarial loss on obligation	55.9	41.9	0.2	0.4
Past service costs	–	0.3	–	–
Benefit payments and transfers	(78.6)	(47.6)	(2.1)	(1.4)
Accrued benefit obligation, end of year	1,628.3	981.0	24.5	12.2
Fair value of plan assets, beginning of year	934.1	856.5	5.9	5.6
Increase in fair value of plan assets from acquisition	494.4	–	–	–
Employee contributions	11.5	9.7	–	–
Employer contributions	63.8	9.6	1.8	1.3
Actual return on plan assets	110.3	105.9	0.3	0.4
Benefit payments	(78.6)	(47.6)	(2.1)	(1.4)
Fair value of plan assets, end of year	1,535.5	934.1	5.9	5.9
Plan deficit	(92.8)	(46.9)	(18.6)	(6.3)
Unamortized net actuarial loss (gain)	218.5	182.4	(0.5)	(0.8)
Unamortized past service costs	0.2	0.3	–	–
Unamortized net transitional asset	(103.2)	(114.1)	(0.7)	(0.8)
Accrued benefit asset (liability), end of year	22.7	21.7	(19.8)	(7.9)
Accrued benefit asset – recorded in Other assets	73.4	25.3	3.9	4.3
Accrued benefit liability – recorded in Deferred employee benefits	(50.7)	(3.6)	(23.7)	(12.2)
Accrued benefit asset (liability), end of year	22.7	21.7	(19.8)	(7.9)

The Plans' assets are comprised of:

	2004	2003
Equity securities	57%	55%
Debt securities	40%	39%
Real estate	3%	5%
Other	–	1%
	100%	100%

The actuarial assumptions used to determine the accrued benefit obligation and net benefit expense (credit) as at December 31, are as follows:

	Pension benefits		Other benefits	
	2004	2003	2004	2003
Accrued benefit obligation				
Discount rate on accrued benefit obligation	6.25%	6.50%	6.00 – 6.25%	6.25%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Net benefit expense (credit)				
Discount rate	6.25 – 6.50%	7.00%	6.25%	6.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	3.50 – 4.00%	3.75%	3.50%	3.75%

Defined contribution plan

The Company's defined contribution plan expense (employer contributions) for the year ended December 31, 2004 amounts to $1.7 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

19. Segmented information

Upon the Company's acquisition of Allstream (Note 3), the Company changed the structure of its internal organization resulting in a change to the composition of the Company's reportable segments. Prior year's segmented information has been reclassified to conform with this new presentation. As at December 31, 2004, the Company has two reportable operating segments: MTS (Manitoba) division and Allstream (National) division. The MTS (Manitoba) division provides a full range of local, data, long distance, wireless, directory publishing and media, digital television, security system and telecommunications equipment sales to residential and business customers in Manitoba. The Allstream (National) division provides local, data, long distance, information technology services and telecommunications equipment sales to business customers in Canada.

The Company evaluates performance based on EBITDA (earnings before interest, taxes, amortization, gain on sale of investment in Bell West, equity losses, goodwill revaluation and other (expense) income). EBITDA, as reported below, includes intersegment revenues and expenses. The Company accounts for intersegment revenues and expenses as if they were to third parties, that is, at prices that approximate current market prices.

The following tables provide further segmented information:

	Years ended December 31							
	MTS (Manitoba) Division		Allstream (National) Division		Other		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Operating revenue								
External	**858.1**	836.8	**666.8**	21.7	**–**	–	**1,524.9**	858.5
Internal	**7.2**	2.0	**3.5**	4.8	**15.2**	15.5	**25.9**	22.3
EBITDA	**464.3**	449.0	**138.7**	(2.1)	**(4.7)**	(4.1)	**598.3**	442.8
Amortization	**222.3**	220.3	**57.3**	3.7	**0.5**	0.5	**280.1**	224.5
Goodwill	**10.7**	10.7	**17.5**	17.5	**–**	–	**28.2**	28.2
Assets	**1,527.5**	1,430.1	**930.9**	19.0	**529.6**	958.5	**2,988.0**	2,407.6
Capital expenditures, net	**200.8**	203.8	**77.1**	4.2	**0.4**	0.1	**278.3**	208.1

Reconciliations of net income and assets are as follows:

	Years ended December 31	
	2004	2003
Net income		
Total EBITDA	**598.3**	442.8
Amortization	**(280.1)**	(224.5)
Gain on sale of investment in Bell West	**232.6**	–
Equity losses	**(2.5)**	(29.8)
Goodwill revaluation	**–**	(2.0)
Other (expense) income	**(74.2)**	3.9
Debt charges	**(47.8)**	(33.2)
Income tax expense	**(121.2)**	(71.6)
Consolidated net income	**305.1**	85.6
Assets		
Assets for operating segments	**2,988.0**	2,407.6
Eliminations	**(1,020.0)**	(738.3)
Future income taxes	**996.1**	13.7
Consolidated total assets	**2,964.1**	1,683.0

20. Commitments, guarantees and contingencies

Commitments

The Company's commitments as at December 31, 2004 are summarized in the following table:

	2005	2006	2007	2008	2009	Beyond	Total
Long-term debt	60.1	48.1	106.5	89.7	220.0	431.9	956.3
Capital leases	2.1	2.1	2.1	2.2	2.2	18.8	29.5
Operating leases	76.3	63.8	53.5	48.2	41.3	209.4	492.5
Purchase obligations	147.1	87.6	79.3	70.7	41.0	21.3	447.0
Total	285.6	201.6	241.4	210.8	304.5	681.4	1,925.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003
(All financial amounts are in $ millions, except where noted)

20. Commitments, guarantees and contingencies (continued)

The Company has entered into operating lease agreements for buildings, operating facilities and construction and other equipment. Purchase obligations include contractual commitments for services required in the normal course of operations and capital purchase commitments under supply contracts and customer contracts.

On May 30, 2002, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, which governs local rates charged to residential and business customers and the rates that incumbent telephone companies may charge their competitors. In this decision, the CRTC established a regulatory deferral account mechanism, which is expected to be used to fund qualifying initiatives, such as rate reductions, rebates and service improvement plans. The Company estimates its deferral account commitment to be approximately $16.0 million as at December 31, 2004.

Guarantees
In the normal course of business and in connection with the disposition or sale of assets, the Company enters into agreements providing indemnifications that may require the Company to pay for costs or losses incurred by the parties to these agreements. These indemnifications relate to various matters such as intellectual property right infringement, loss or damage to property, claims arising from the provision of services, violation of laws or regulations, and breaches of representations or warranties. The nature of these indemnifications prevents the Company from making reasonable estimates of the maximum potential amount it could be required to pay, and no amount has been recorded in the financial statements relating to these indemnifications. Historically, the Company has not made significant payments related to these indemnifications.

The Company also indemnifies its directors and officers against claims and damages that are incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance in respect of its directors and officers.

The Company obtains letters of credit with financial institutions for the benefit of third parties. In general, the terms of these letters of credit permit third parties to draw on the letters of credit to recover any loss incurred, as defined in the particular letter of credit. As at December 31, 2004, the Company had undrawn letters of credit outstanding in the amount of $15.3 million.

Contingencies
On April 21, 2004, Unique Broadband Wireless Services, Inc. ("UBS") filed a statement of claim against Allstream, Inukshuk Internet Inc. ("Inukshuk"), Microcell Telecommunications Inc. and Microcell Solutions Inc. ("Microcell") in the Ontario Superior Court of Justice. This claim, which seeks damages in the amount of $160.0 million and other relief, alleges, in part, that Allstream induced Inukshuk and Microcell to breach their agreement with UBS relating to the use of certain wireless spectrum and licenses, and that it intentionally interfered with the contractual arrangements between these parties. The Company intends to vigorously defend its position, and the Company believes it has a good defence to this claim.

21. Sale of investment in Bell West

Effective February 2, 2004, the Company exercised its option to sell its interest in Bell West Inc. ("Bell West") to Bell Canada. As a result, the Company recognized a pre-tax gain on the sale of its investment in the amount of $232.6 million (after tax amount of $188.8 million), and discontinued the use of equity accounting for this investment. On August 3, 2004, the Company received the proceeds of the sale of its interest in Bell West in the amount of $645.0 million from Bell Canada. Upon completion of this transaction on August 3, 2004, the Company's obligations under all guarantees related to Bell West terminated.

22. Settlement agreement with Bell Canada

Effective June 30, 2004, the Company signed a settlement agreement (the "Settlement Agreement") with Bell Canada that allows for an orderly unwind of existing commercial and business arrangements between the two parties. As part of this arrangement, on August 3, 2004, the Company paid Bell Canada $75.0 million (after tax amount of $47.8 million), which was recorded as other expense in the results of operations. In addition, on August 3, 2004, Bell Canada discontinued all legal proceedings against the Company, waived its right to exercise any voting rights associated with its equity interest in the Company, and had its director nominees resign from the Company's Board of Directors. Subsequently, Bell Canada disposed of its equity interest in the Company. In the event of a change of control of the Company prior to January 1, 2006, Bell Canada will receive a premium equal to the appreciation in the Company's share price from the time of Bell Canada's disposition of its equity interest to the time of any change in control.

23. Comparative figures

The prior period figures have been reclassified where necessary to conform to 2004 presentation.

- Data connectivity revenues have been reclassified from Local services and Long distance services, and grouped with Internet and IT services (formerly entitled e-business services) revenues to form Data services.
- Directory services and Digital television revenues have been grouped with Miscellaneous revenues to form Other revenues.
- Costs of goods sold previously netted against Local services, Wireless services and Other revenues, are now included as Operations expenses.
- Capital lease obligations are presented separately on the balance sheet.

FIVE YEARS IN REVIEW

(Not subject to Auditors' Report)

	2004[1]	2003[2]	2002[2]	2001[2]	2000[2]
FINANCIAL INFORMATION (in $ millions, except earnings per share & ratios)					
Consolidated operations					
Total operating revenues	1,524.9	858.5	942.6	1,016.6	834.2
Total operating expenses	1,206.7	640.2	757.3	875.1	669.3
Operating income	318.2	218.3	185.3	141.5	165.0
Debt charges	47.8	33.2	29.5	25.0	25.6
Gain on sale of investment in Bell West [3]	232.6	–	–	–	–
Equity losses in Bell West [3]	2.5	29.8	26.2	–	–
Gain on sale of Bell Intrigna [3]	–	–	94.2	–	–
Net income	305.1	85.6	162.3	73.5	100.3
Basic earnings per share ($)	4.31	1.36	2.53	1.14	1.55
EBITDA [4]	598.3	442.8	409.5	367.5	360.5
Dividends	119.0	59.1	52.6	49.0	49.1
Capital expenditures, net	278.3	208.1	222.2	380.6	270.3
Continuing operations [5]					
Operating revenues	1,524.9	858.5	850.4	834.4	776.1
Net income	175.2	115.0	112.0	112.1	112.8
Basic earnings per share ($)	2.47	1.83	1.74	1.73	1.74
EBITDA	603.8	447.9	438.6	425.7	385.3
Consolidated balance sheet					
Total assets	2,964.1	1,683.0	1,617.7	1,660.7	1,467.3
Property, plant and equipment, net book value	1,448.1	1,065.0	1,060.7	1,289.2	1,110.6
Long-term debt and notes payable [6]	956.3	529.3	472.3	344.7	329.7
Shareholders' equity	1,384.6	887.5	887.7	801.3	781.3
Debt to capitalization (%)	40.9	37.4	34.7	30.1	29.7
OPERATIONAL STATISTICS					
Long distance minutes (in thousands)	5,422,335	1,115,692	1,219,005	1,236,813	1,199,015
Cellular customers	285,796	255,657	234,062	206,447	169,140
Internet customers [7]	149,546	134,755	121,119	99,014	74,186
MTS TV customers	32,578	8,693	200	–	–
Number of employees [8]	6,567	3,418	3,566	3,586	3,125

(1) Effective June 4, 2004, the Company acquired 100% of the issued and outstanding Class A voting shares and Class B limited voting shares of Allstream Inc., a provider of telecommunications services. The operating results of this business are included in the Company's consolidated operating results from the effective date of acquisition.

(2) Financial results for each of the years 2003 to 2000 have been restated for change in presentation of cost of goods sold, whereby costs previously netted against operating revenues are now included as operating expenses, and for a retroactive change in accounting policy for deferred alarm installation costs, adopted January 1, 2004. Figures for 2002 were restated for a change in accounting policy for stock options granted to employees adopted January 1, 2003.

(3) During 2000 and 2001 and until April 11, 2002, the Company owned 66.7% of Bell Intrigna Inc. ("Bell Intrigna"), a telecommunications service provider, of which 33.3% was owned by Bell Canada. During this period, the Company consolidated the results of Bell Intrigna. Effective April 11, 2002, the Company entered into an agreement with Bell Canada, whereby Bell Intrigna acquired the operating assets of BCE Nexxia Inc. in Alberta and British Columbia as well as certain wireline assets owned by Bell Canada west of Ontario, in exchange for the issuance of shares. After this transaction, this combined entity continued operations under the name Bell West Inc. ("Bell West"), owned 60% by Bell Canada and 40% by Manitoba Telecom Services Inc. As a result of this transaction, the Company began accounting for its 40% investment on an equity basis, beginning April 11, 2002, and recognized a pre-tax gain of $94.2 million on reduction of its ownership interest. On February 2, 2004, the Company exercised its put option to sell its interest in Bell West to Bell Canada. At that time, the Company recognized a pre-tax gain of $232.6 million on sale of its investment and discontinued the use of equity accounting. On August 3, 2004, the Company received the proceeds of the sale of its investment in the amount of $645.0 million from Bell Canada.

(4) Earnings before interest, taxes, amortization, gain on sale of investment in Bell West, equity losses, goodwill revaluation, gain on sale of Bell Intrigna, and other (expense) income.

(5) Continuing operations exclude restructuring and integration costs in 2004, 2003 and 2002; the impact of Bell West in 2004, 2003 and 2002; the impact of Bell Intrigna in 2002, 2001 and 2000; and one-time items, which include Bell Canada settlement costs in 2004, a provision against a long-term investment in 2004, and a goodwill revaluation in 2003.

(6) Includes current portion of long-term debt.

(7) Includes consumer and business customers. Figures for 2003 to 2000 have been restated to include business customers previously not included in the customer count.

(8) Represents number of regular full-time and regular part-time employees.

INVESTOR INFORMATION

MANITOBA TELECOM SERVICES INC.

Operating subsidiaries
MTS Allstream Inc.
AAA Alarm Systems Ltd.
Allstream Fiber U.S., Inc.

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Contact information

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Or visit the Investor Relations section on our Web site at www.mts.ca
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P.O. Box 6666
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For share transfer agent and registrar information, please contact:
Computershare Trust Company of Canada
600, 530 – 8 Avenue SW
Calgary, Alberta T2P 3S8
1-800-564-6253

Market trading information
MTS's Common Shares are listed on The Toronto Stock Exchange. Our trading symbol is MBT.

Dividends*

Record Date	Payment Date
March 15, 2005	April 15, 2005
June 15, 2005	July 15, 2005
September 15, 2005	October 14, 2005
December 15, 2005	January 13, 2006

*Subject to approval by Board of Directors.

Annual Meeting
The Annual Meeting of shareholders of MTS will be held at The Fort Garry Hotel, Provencher Room, Winnipeg, Manitoba, on May 3, 2005 at 11:00 a.m.

Duplicate annual reports
If you have received duplicate copies of this annual report, please call MTS Corporate Communications at 1-800-565-1936 or (204) 941-8246.

Share Performance
This graph compares the cumulative total return on MTS's Common Shares over the last eight years with the cumulative total return of the S&P/TSX Composite Index, assuming a $100 investment at the initial offering price of $13.00 and reinvestment of dividends.

mts.ca